



Financial Reporting Standards Committee
Meeting summary – April 2005

The Institute's Financial Reporting Standards Committee (Committee) met on 18 April 2005.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Philip Hilliard, Quinn Y.K. Law, Tommy Tam, Stephen Taylor, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Susanna Lau and Mrs. Catherine Morley.

Secretariat staff present was: Ms. Elsa Ho, Assistant Director, Standard Setting.

The Committee discussed the following items:

1. Regional Standards Setters Meeting, Bangkok 22 March
2. Meeting with IRD re Interpretation 24 *Revenue - Pre-completion Contracts for the Sale of Development Properties*
3. SEHK draft announcement re proposed disclosure requirements in relation to the impact of adopting new accounting standards for listing applicants and other circulars
4. Determination of the residual value of a Hong Kong property
5. Proposed amendments to HKAS 24 *Related Parties Disclosures*
6. Proposed amendment to the effective date of the option in paragraphs 93A-93D of HKAS 19 Amendment
7. Response from the SEHK re the Committee's request for amending the Listing Rules to cater for the treatments under HKAS 40
8. Comments received on the Valuation Standards issued by the HKIS
9. Revised Terms of Reference – Financial Reporting Standards Committee and Financial Reporting Interpretations Sub-Committee
10. Names of Interpretations

1. Regional Standards Setters Meeting, Bangkok 22 March

The Chairman gave a verbal report on the Regional Standards Setters Meeting held in Bangkok on 22 March attended by him and Stephen Chan, Director of Standard Setting.

He also informed the Committee that Sir David Tweedie, Chairman of the IASB, would visit Hong Kong on 9 June 2005 when the inaugural Financial Reporting Standards Forum would be held by the Institute. Mr. Warren McGregor, a liaison member of the IASB, suggested to him that, in future, prior to issuing a local Interpretation of Standards, a copy should be sent to the IASB and IFRIC in order to ensure that the conclusions reached in a proposed local Interpretation would not conflict with what they intended to achieve when setting the relevant Standards.

2. Meeting with the IRD re Interpretation 24 Revenue - Pre-completion Contracts for the Sale of Development Properties

The Chairman reported to the Committee the discussion at the meeting with the Inland Revenue Department (IRD) regarding the proposed Interpretation 24. In particular, he informed the Committee that the IRD had confirmed there would be no double taxation on the same revenue if the taxpayer chose to make prior year profits adjustments. On the submission of accounts supporting the tax return for the current year, the taxpayer should indicate which part of the revenue had already been included in the previous year's tax return. The IRD would consider issuing an internal guideline to deal with this.

3. SEHK draft announcement re proposed disclosure requirements in relation to the impact of adopting new accounting standards for listing applicants and other circulars

The Committee considered the Stock Exchange's draft announcement regarding the disclosure requirements in relation to the impact of adopting new accounting standards for listing applicants and other circulars and had made a number of comments.

The secretariat was requested to pass those comments to the Auditing and Assurance Standards Committee for note at its next meeting.

(Post meeting note: Comments received from various committees of the Institute had been consolidated and subsequently addressed by the Stock Exchange in finalising the final announcement.)

4. Determination of the residual value of a Hong Kong property

The Committee noted the issues raised for consideration by a member regarding the determination of the residual value of a Hong Kong property. Since the issues are technical, the Committee agreed to refer them to the Big Four accounting practices for consideration and to ask them to make recommendations to the Committee should they consider any guidance on dealing with the issues is needed.

5. Proposed amendments to HKAS 24 Related Parties Disclosures

The Committee received a draft copy of the proposed amendments to HKAS 24 to deal with the anomalies identified in IAS 24. The proposed amendments to HKAS 24 were to extend the definition of related party to include entities under common significant influence and common joint control as well as those under common control. The Committee noted that these entities were already defined as related parties under SSAP 20 *Related Parties Disclosures*.

After deliberation, the Committee was of the view that, if a preparer was aware of certain related party transactions that had material effect on the financial statements, the true and fair requirement would require such transactions to be disclosed regardless of whether the relevant related party falls within the definition of a related party in HKAS 24 or not. The Committee decided not to amend HKAS 24.

6. Proposed amendment to the effective date of the option in paragraphs 93A-93D of HKAS 19 Amendment

The Committee noted that there was a discrepancy between the effective date of the option set out in paragraphs 93A – 93D of Amendment to HKAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures* and that of IAS 19 Amendment. Having considered the fact that HKAS 19 allows early application and in the light of the convergence policy, the Committee agreed that the effective date set out in paragraph 159C of IAS 19 Amendment should be adopted for the equivalent HKAS 19 Amendment. Accordingly, the Committee agreed to recommend Council to approve the following changes to paragraph 159C of HKAS 19 Amendment:

"159C. The option in paragraphs 93A – 93D may be used for annual periods ending on or after 16 December 2004 if an entity decides to early adopt this Standard for a period beginning before 1 January 2005."

7. Response from the SEHK re the Committee's request for amending the Listing Rules to cater for the treatments under HKAS 40

The Committee noted the letter from the Stock Exchange dated 21 March 2005 responding to the request of the Committee for the Stock Exchange to consider amending the Listing Rules to cater for the treatments under HKAS 40 *Investment Property*. The Committee appreciated the response from the Stock Exchange, in particular, the assurance that the Stock Exchange would consider, based on experience, whether there would be a need to modify the application of the profit test in particular circumstances.

8. Comments received on the Valuation Standards issued by the HKIS

The Committee noted that comments had been received from a member on the Valuation Standards issued by the Hong Kong Institute of Surveyors (HKIS) and the comments received had been included in a draft letter to HKIS.

9. Revised Terms of Reference – Financial Reporting Standards Committee and Financial Reporting Interpretations Sub-Committee

The Committee received draft proposed revised terms of reference of the Committee and Sub-Committee. The proposed revisions were to take into account the proposed responsibilities of national standard setters as set out in the Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB recently issued by the IASB for consultation.

The Committee agreed to submit the proposed revised terms of reference of the Committee and Sub-Committee to Council for approval at its next meeting.

10. Names of Interpretations

(a) HKFRS Interpretations and HKAS Interpretations

In responding to the concern raised at the last meeting that the existing names of the Interpretations give the impression that each category is linked to a particular category of Standards, the Committee agreed to change the names of HKFRS Interpretations and HKAS Interpretations to HK(IFRIC) Interpretations and HK(SIC) Interpretations, respectively.

The above changes would distinguish the two Interpretations in Hong Kong that are based on the two categories of international Interpretations (IFRIC and SIC Interpretations) while dealing with the above concern.

Since there are already 5 HKFRS Interpretations and 11 HKAS Interpretations in issue, the Committee agreed that, in making the above changes in names, a Circular should be issued to inform members of the above changes without reissuing those existing Interpretations. Given that the numbering of HKFRS Interpretations and HKAS Interpretations is already in line with the IFRIC Interpretations and SIC Interpretations, the above changes would not alter the numbering of those Interpretations currently in issue.

(b) Home-Grown Interpretations

The Committee agreed that, in future, any “home-grown” Interpretations should be named as “HK Interpretations”. In approving this, the Committee also agreed to renumber and reissue the following home-grown interpretations as HK Interpretations 1, 2 and 3:

- SSAP Interpretation 22 *The Appropriate Policies for Infrastructure Facilities*
- SSAP Interpretation 23 *The Appropriate Policies for Hotel Properties*
- SSAP Interpretation 24 *Revenue-Pre-completion Contracts for the Sale of Development Properties*

(c) SSAP Interpretations

As far as the other SSAP Interpretations are concerned, the Committee did not propose to make any changes to them as they would all be superseded by HKAS Interpretations with effect for annual accounting periods beginning on or after 1 January 2005.

Date of Next Meeting

The Committee agreed to hold its next meeting on 9 May 2005.

This meeting summary is provided for the information and convenience of those who wish to follow the Committee’s deliberations. Except where indicated otherwise, all conclusions reported are tentative and may be changed at future meetings.

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The Committee welcomes comments on its technical agenda. Please e-mail us at: commentletters@hkicpa.org.hk.

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