



Financial Reporting Standards Committee
Meeting summary – March 2005

The Institute's Financial Reporting Standards Committee (Committee) met on 9 March 2005.

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Raphael Ding (Deputy Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Tommy Fung (Rep by Ms. Rita Chan), Philip Hilliard, Tommy Tam, Ms. Olivia Cheung, Ms. Fanny Li and Mrs. Catherine Morley.

Secretariat staff present were: Mr. Stephen Chan (Director (Standard Setting)) and Ms. Elsa Ho (Assistant Director (Standard Setting)).

The Chairman welcomed Ms. Olivia Cheung and Ms. Fanny Li to the meeting as members of Committee. The Committee expressed gratitude to the retiring members, Mr. Edward Chow and Ms. Rebecca Chan for their support and contribution to the Committee.

The Committee discussed the following items:

1. Draft Interpretation 25 *Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
2. Proposed Accounting Guideline on Merger Accounting
3. Proposed Guidance on the Accounting for a Deemed Disposal
4. Draft Interpretation 24 *Revenue – Pre-completion Contracts for the Sale of Development Properties*
5. Feedback on the issues raised in connection with the HKASs issued as a result of the convergence project
6. Draft Operations Report of the Professional Standards Monitoring Committee's Review of Financial Statements in 2004
7. Revised Terms of Reference – Financial Reporting Standards Committee and Financial Reporting Interpretations Sub-Committee
8. Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules
9. Annual Accounting Update
10. Enquiries raised by a member

1. **Draft Interpretation 25 Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases**

The Committee considered revised Draft Interpretation 25 that had taken into account comments received from members and agreed some minor wording changes to the conclusion paragraphs.

The Committee considered whether a transitional provision should be proposed in the draft Interpretation. After deliberation, the Committee agreed to propose to include a choice to allow entities to account for any changes resulting from the application of this Interpretation either as a change in an accounting policy in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or prospectively over the remaining lease term. The Committee also agreed to invite comments specifically on the proposed transitional arrangements.

The Committee agreed to submit the draft Interpretation to Council for approval to be issued as an exposure draft for a consultation period of one month.

2. Proposed Accounting Guideline on Merger Accounting

The Committee endorsed the proposed Accounting Guideline to be submitted to Council for approval to be issued as an exposure draft for a consultation period of two months, subject to the resolution of certain minor drafting issues by the Working Group on SSAP 27 Replacement.

3. Proposed Guidance on the Accounting for a Deemed Disposal

The Committee received and considered a comment letter from a member practice on the Exposure Draft of the proposed Guidance on the Accounting for a Deemed Disposal.

The Committee noted the concern raised by the member practice that issuing the proposed guidance as currently drafted would result in the Institute moving ahead of the IASB on some fundamental issues regarding the basis on which consolidated accounts are prepared, in particular, the accounting for transactions with minority interests. In the light of this and the fact that the accounting for a deemed disposal is an issue to be addressed in Phase II of the IASB Business Combinations project, the Committee decided not to proceed further with the proposed guidance and agreed to withdraw both the Exposure Draft and the related Accounting Bulletin and wait for the outcome of the IASB's project.

4. Draft Interpretation 24 Revenue – Pre-completion Contracts for the Sale of Development Properties

The Committee received comment letters from the following parties on Draft Interpretation 24 *Revenue – Pre-completion contracts for the Sale of Development Properties*:

- Coastal Realty Group
- Swire Properties
- KPMG
- Real Estate Developers Association (REDA)

The Committee noted that the Chair, the Deputy Chairs and the secretariat had a meeting with the REDA on 1 March 2005. The Chairman reported to the Committee the discussions at that meeting.

The Committee went through the comment letters. The Committee noted that the letter from a particular respondent provided a detailed analysis of the application of HKAS 18 *Revenue* to this type of transaction. The Committee was of the view that, in applying this Interpretation, property developers, including those that are currently using the completion method, should re-examine their pre-completion contracts on a case-by-case basis and reassess whether their contracts had been properly accounted for in accordance with HKAS 18. The Committee agreed to suggest to the respondent that they may contribute an article to the Hong Kong Accountant on their analysis of the application of HKAS 18 to the sale and purchase agreements of properties in Hong Kong if they want to stimulate further discussions on the topic.

In addressing the concerns raised by the commentators that the draft Interpretation precluded using the stage of completion method, the Committee agreed to amend the "Issue" paragraph to clarify that the issue addressed in this Interpretation is which accounting standard(s) shall be followed in recognising revenue arising from pre-completion contracts for the sale of development properties. The Committee however considered that the conclusions paragraphs are appropriate in that they merely specify the appropriate accounting standards to be followed.

After considering the views expressed by the REDA and other commentators on the three possible transitional provisions specified in the Invitation to Comment, the Committee agreed that this Interpretation should become effective for pre-completion contracts entered into on or after 1 January 2005 with earlier application encouraged. Retrospective application of this Interpretation to pre-completion contracts entered into before 1 January 2005 (or date of initial application of this Interpretation, if earlier) should be permitted but not required. If an entity decides not to apply this Interpretation retrospectively to pre-completion contracts entered into before 1 January 2005 (or date of initial application of this Interpretation, if earlier), it shall continue to account for those contracts using the method of accounting used prior to the application of this Interpretation. The Committee agreed to submit this Interpretation to Council for approval to be issued as a final Interpretation.

5. Feedback on the issues raised in connection with the HKASs issued as a result of the convergence project

The Committee received and noted the reply from a project manager of the IASB setting out his personal views on the issues raised by the Committee in connection with certain International Accounting Standards.

The Committee therefore directed the secretariat to seek further clarification on those issues that had not been addressed.

The Committee however agreed that, given the reply had acknowledged that there are some anomalies in the definition of the related parties in IAS 24 *Related Party Disclosures*, the Committee agreed to amend HKAS 24 *Related Party Disclosure* to deal with the anomalies identified. The Committee directed the secretariat to propose certain amendments to HKAS 24 for consideration by the Committee.

(Post meeting note: Subsequent to the meeting, the Committee decided not to amend HKAS 24 after having considered that there are further issues involved in amending HKAS 24.)

6. Draft Operations Report of the Professional Standards Monitoring Committee's Review of Financial Statements in 2004

The Committee received a draft operations report of the Professional Standards Monitoring Committee (PSMC)'s Review of Financial Statements in 2004. The Committee generally considered that, without knowing the facts leading to the findings of the review, it would be difficult for the Committee to comment on the findings.

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

The Committee received draft proposed revised terms of reference that had taken into account the proposed responsibilities of national standard setters as set out in the discussion paper on the role of national standard setters and their relationships with the IASB that was obtained from the last World Standard Setters meeting.

The Committee noted that the IASB had recently issued a draft Memorandum of Understanding (MoU) on the role of Accounting Standard-Setters and their relationships with the IASB for consultation until 29 July 2005. This draft MoU had taken into account comments received on the draft considered at the last World Standard Setters meeting. The Committee however decided not to invite comments on this MoU until the Institute has formed a preliminary view on its future role in standard setting.

The Committee, while agreeing that the proposed revised terms of reference should reflect the proposed responsibilities of national standard setters as set out in the draft MoU, suggested that they should be more generic. The Committee directed the secretariat to amend the proposed revised terms of reference accordingly for circulation to the members for comments.

8. Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules

At the request of the Institute's Corporate Finance Committee, which is co-ordinating the Institute's submission to the SFC, the Committee considered the proposed amendments, in particular, Schedule 3 in Appendix 1 of the Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules recently issued by the Securities and Futures Commission (SFC).

The Committee considered the SFC's proposal not to adopt the current listing rule requirement for an issuer using IFRS to disclose and explain in its financial statements the differences between IFRS and HKFRS, and agreed with its proposal.

Members were requested to consider and provide their comments on other proposals in the Consultation Paper to the secretariat. All the comments received would then be collated and included in a response from the Committee to the Corporate Finance Committee.

9. Annual Accounting Update

The Committee noted that the CPD Committee had considered at its last meeting a proposal to launch a structured CPD framework and programme focusing on the competencies and skills required for the professional development of the members working in different sectors. Within that proposal, external training firms would be invited to organise workshops on accounting related matters. However, the CPD seminars presently organised by the Institute would continue under the proposed structured CPD framework without any significant changes.

As regards the annual accounting update to be held on 7 May 2005, the Committee reaffirmed the broad outline of the programme proposed at the last meeting as follows:

1. The explanatory memorandum that sets out all the significant changes
2. Standards application issues and different accounting treatments
3. The role of the Committee and the IASB due process and the involvement of the Institute in international standard setting process
4. The proposed SME-FRF and SME-FRS

10. Enquiries raised by a member

In response to an enquiry raised by a member, the Committee agreed that the effective date of HKAS-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* should be amended from "1 January 2005" to "accounting periods beginning on or after 1 January 2005".

Comments were raised as regards the three categories of Interpretations (SSAP-Int, HKAS-int and HKFRS-int) in particular the names of the interpretations give the impression that each category is linked to a particular category of Standards. The Committee noted that the IASB label their Interpretations according to the committees that developed them rather than types of pronouncements they relate to and the original intent of the Committee was to follow the approach used by the IASB.

In this regard, the Committee directed the secretariat to make a recommendation on this to the Committee for consideration.

Date of Next Meeting

The Committee agreed to hold its next meeting on 13 April 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.

The IASB publishes summaries of its meetings and projects. These can be found on the IASB's website at: <http://www.iasb.org>.

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

Copyright 2005 The Hong Kong Institute of Certified Public Accountants. All rights reserved.

Permission is granted to make copies of this Meeting Summary provided that such copies are or use in academic classrooms or for personal use and are not sold or disseminated, and provided further that each copy bears the following credit line: "Copyright by the Hong Kong Institute of Certified Public Accountants. All rights reserved. Used by permission". Otherwise, written permission from the Hong Kong Institute of Certified Public Accountants is required to reproduce, store or transmit this document, except as permitted by law.

Meeting Summaries are provided for the information and convenience of those who wish to follow the Committee's deliberations. Decisions reported are tentative and may be changed or modified by the Committee at a later date. Decisions become final only after completion of the formal due process required to finalize and release documents. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this Meeting Summary, or for any errors or omissions in it.