

Financial Accounting Standards Committee

Meeting summary – July 2004

The Society's Financial Accounting Standards Committee (Committee) met on 14 July 2004.

Present at the Committee's meeting were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Edward K.F. Chow, Choy Chung-foo (represented by Mr. Vingle Yuen), Raphael Ding, Tommy Fung, Philip Hilliard, Quinn Y.K. Law, Tommy Tam, Stephen Taylor, Tom Wu, Ms. Rebecca Chan, Mrs. Catherine Morley, Mr. Simon Riley (HKSA Technical Director, Financial Reporting) and Ms. Elsa Ho (HKSA Assistant Director, Financial Reporting).

The Committee noted that Mr. Saleem Razvi will replace the Hong Kong Association of Banks' representative, Mr. Andrew Huke, with effect from the Committee's next meeting. Mr. Huke was thanked for his contribution to the work of the Committee, especially in respect of the introduction of HKAS 39 and the proposed introduction of an HKAS that is converged with IAS 30 on financial institution disclosures. The Committee also noted that Mr. Robert Gibson had resigned from the Committee since the previous meeting. The Committee thanked Mr. Gibson for his contribution to the Committee's work since his appointment in mid-2002.

The Committee discussed the following items:

- ✓ Implementation Guidance on IAS 39 – equivalent guidance proposed for publication in Hong Kong
- ✓ Proposed HKAS 26 *Accounting and Reporting by Retirement Benefit Plans*
- ✓ HKFRS 3 *Business Combinations*
- ✓ HKFRS 4 *Insurance Contracts*
- ✓ HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- ✓ Urgent Issues and Interpretations Sub-Committee

Implementation Guidance on IAS 39 – equivalent guidance proposed for publication in Hong Kong

The Committee agreed to recommend that the HKSA Council adopt the IASB's Implementation Guidance on IAS 39 in Hong Kong as implementation guidance on HKAS 39.

Proposed HKAS 26 *Accounting and Reporting by Retirement Benefit Plans*

The Committee considered a report from the HKSA Expert Panel on Insurance. Both the Committee and the Expert Panel considered letters received on ED/HKAS 26 from the following commentators:

- The Actuarial Society of Hong Kong
- PricewaterhouseCoopers
- KPMG

The comment letters will be made available on the HKSA website. Following from its consideration of the comment letters, the Committee agreed with a number of amendments recommended by the Expert Panel to the HKAS 26 Appendix on financial statements of MPF schemes and ORSO schemes.

The Committee agreed to recommend that the HKSA Council approve HKAS 26 (which is converged with IAS 26) as a Standard with effect for accounting periods beginning on or after 1 January 2005.

HKFRS 3 *Business Combinations*

The Committee noted that the proposed HKFRS is largely converged with IFRS 3 except for:

- Special provisions for Hong Kong incorporated companies that have been retained from the existing SSAP 30 and which deal with the statutory constraints surrounding the Hong Kong Companies Ordinance definition of "subsidiary"; and
- Certain transitional and legacy issues that may give rise to different short and medium term accounting treatments for goodwill that arose in recent years preceding the respective Standards' effective dates. The SSAP 30 transitional provision permitted goodwill to be "adjusted against reserves as a matter of accounting treatment" (which had been prohibited since the 1993 revision of IAS 22).

Under SSAP 30, those entities that had previously adjusted goodwill against reserves as a matter of accounting treatment (that is, derecognised as an asset but separately recognised it as a component of equity) were required to periodically assess the goodwill for impairment. In the transition to HKFRS 3, however, such goodwill would be derecognised completely (that is, neither recognised as a separate component of equity nor reinstated as an asset on the balance sheet) and there would no longer be recognised any further amortisation expense or impairment loss in respect of that goodwill. Given that the new HKFRS would not allow such goodwill to be recognised in the income statement when a cash-generating unit to which such goodwill relates is impaired, the Committee agreed to make it clear in the introduction section that this is effectively a special concession applying under the HKFRS. The Committee also agreed to highlight in the introduction section that, since the Standard would require goodwill that had been previously adjusted against reserves as a matter of accounting treatment not to be included in the income statement on the disposal or impairment of an asset, this would in effect prohibit the restatement of such goodwill in the balance sheet as an asset.

Subject to the above, the Committee agreed to recommend that the HKSA Council approve HKFRS 3 as a Standard effective for business combinations for which the agreement date is on or after 1 January 2005.

HKFRS 4 Insurance Contracts

The Committee agreed to recommend that the HKSA Council approve HKFRS 4 (which is converged with IFRS 4) as a Standard with effect for accounting periods beginning on or after 1 January 2005. The Committee also agreed that the transitional provisions set out in HKFRS 4 should be aligned with those set out in HKAS 39 (see further discussion below).

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The Committee agreed to recommend that the HKSA Council approve HKFRS 5 (which is converged with IFRS 5) as a Standard with effect for accounting periods beginning on or after 1 January 2005.

Urgent Issues and Interpretations Sub-Committee

Arising from a recent meeting of the Urgent Issues and Interpretations Sub-Committee (UIISC), the Committee discussed the issue of whether retrospective application and/or early adoption of the financial instruments standards should be permitted. Members considered that there may be a legitimate reason for an entity to early adopt and/or apply retrospectively in some cases and the transitional provisions as presently drafted ought not to rule this out absolutely. For example, HKAS 32 deals primarily with disclosure and presentation matters and it would generally be more desirable for the financial statement comparatives to be realigned with present year disclosures. The Committee also noted that an earlier version of IAS 39 contained some further guidance on the transitional provisions. In view of the above, the Committee agreed to revise the transitional provisions in HKAS 32 and HKAS 39.

The Committee agreed to approve proposed HKFRS-Int 1, which is converged with IFRIC Interpretation 1, and the comment letter on IFRIC D6, that had been considered and approved by the UIISC, by circulation subsequent to the meeting.

The Committee requested the UIISC to consider an issues paper on the deferred tax implications on the revaluation of leasehold investment properties and to report its views to the Committee.

Date of Next Meeting

The Committee will next meet on 8 September 2004.

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@hksa.org.hk.