

Financial Accounting Standards Committee

Meeting summary – March 2004

The Society's Financial Accounting Standards Committee (Committee) met on 10 March 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, Robert Gibson, Philip Hilliard, Andrew Huke, Quinn Y.K. Law, Tommy Tam, Stephen Taylor, Tom Wu, Ms. Rebecca Chan, Ms. Susanna Lau, Mrs. Catherine Morley, Mr. Simon Riley (HKSA Technical Director, Financial Reporting) and Ms. Elsa Ho (HKSA Assistant Director, Financial Reporting).

The following items were on the Committee's agenda:

- ✓ Companies Ordinance financial reporting requirement – holding company's balance sheet presented with consolidated accounts
- ✓ Proposed second consultation paper on a financial reporting framework and financial reporting standard for small and medium-sized entities - referral from the HKSA GAAP for Small Businesses Working Group
- ✓ Accounting standards revised as a consequence of the IASB's Improvements Project
- ✓ Financial Instruments - Proposed HKAS 32 & HKAS 39 based on the recently revised IAS 32 & IAS 39
- ✓ Convergence with IASB Standards
- ✓ Proposed HKFRS 2 *Share-based Payment* (converged with IFRS 2)
- ✓ 2004 standard setting timetable update
- ✓ Proposed replacement/withdrawal of SSAP 27

The Committee also received a verbal report from the Technical Director on his recent attendance at the Regional Standard Setters team meeting on joint venture accounting held in Kuala Lumpur.

Companies Ordinance financial reporting requirement – holding company's balance sheet presented with consolidated accounts

The Committee considered an issue on whether the Companies Ordinance requirement for the parent company's balance sheet to be presented together with consolidated accounts would give rise to a non-compliance with accounting standards if a full company set of accounts with notes are not included.

When an entity has one or more subsidiaries Accounting Standards only require consolidated accounts. The Committee's view is that the Companies Ordinance requirement for the balance sheet to show a true and fair view and be reported on is an anomaly and is an auditing and financial statement preparation issue, not an accounting issue per se. The consolidated accounts satisfy accounting standards and the company balance sheet is a Companies Ordinance requirement that overrides accounting standards. The Committee's view is that a change in the law is needed, but until then the status quo applies and auditors will have to provide an opinion in accordance with the requirements of the Ordinance. This matter was also referred to the Society's Auditing and Assurance Standards Committee for confirmation.

Proposed second consultation paper on a financial reporting framework and financial reporting standard for small and medium-sized entities - referral from the HKSA GAAP for Small Businesses Working Group

The Committee received a draft Second Consultation Paper on the Proposed Introduction of a Financial Reporting Framework and Financial Reporting Standard for Small and Medium-sized Entities in Hong Kong, referred to the Committee by the Society's GAAP for Small Businesses Working Group (GSBWG). The Committee noted four points, which would be communicated to the GSBWG, and deferred further discussion until a subsequent meeting.

Accounting standards revised as a consequence of the IASB's Improvements Project

The Committee noted that the HKSA Council at its March meeting had approved the following ten accounting standards, nine of which were revised as a consequence of the IASB's Improvements Project:

- ✓ HKAS 1 *Presentation of Financial Statements* (revision of SSAP 1)
- ✓ HKAS 2 *Inventories* (revision of SSAP 22)
- ✓ HKAS 8 *Accounting Policies and Changes in Accounting Estimates and Errors* (revision of SSAP 2)
- ✓ HKAS 10 *Events after the Balance Sheet Date* (revision of SSAP 9)
- ✓ HKAS 16 *Property, Plant and Equipment* (revision of SSAP 17)
- ✓ HKAS 21 *The Effects of Changes in Foreign Exchange Rates* (revision of SSAP 11)
- ✓ HKAS 27 *Consolidated and Separate Financial Statements* and HKAS-Int-12 *Consolidation-Special Purpose Entities* (revision of SSAP 32)
- ✓ HKAS 28 *Investments in Associates* (revision of SSAP 10)
- ✓ HKAS 29 *Financial Reporting in Hyperinflationary Economies* (new Standard)
- ✓ HKAS 33 *Earnings Per Share* (revision of SSAP 5)

The Committee considered some further issues in relation to the Explanatory Memorandum, which will accompany the revised Standards, and agreed that further research should be conducted into the application of the equity method under HKAS 28 when an investor has an interest in an associate but has no subsidiaries.

Financial Instruments - Proposed HKAS 32 & HKAS 39 based on the recently revised IAS 32 & IAS 39

The Committee agreed in principle that the proposed HKAS 32 & HKAS 39, based on the recently revised IAS 32 & IAS 39, should apply for financial statements covering periods beginning on or after 1 January 2005. In agreeing that these two Standards should be fully converged with the IASB's equivalent Standards, the Committee did however consider that the transition to HKAS 39 should be, in principle, consistent both with a 'fresh start' approach and the provisions set out in HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*. The Committee will review a draft transitional provision at its next meeting.

Proposed Exposure Draft (ED): Convergence with IASB Standards

The Committee agreed to consider at its next meeting a draft ED (and Invitation to Comment thereon) that proposes convergence of Hong Kong's accounting standards with the IASB's Standards. The ED would cover those SSAPs where significant differences to the IASB's Standards remain and which were not revised as a consequence of the IASB's Improvements project, for example, those Standards on borrowing costs, joint ventures, investment property and leases.

In respect of investment property, the Committee is looking at full adoption of IAS 40 on investment property for accounting periods beginning on or after 1 January 2005. If adopted, the revised standard would (amongst other changes to SSAP 13) require changes in the fair value of investment property to be reported as part of a company's annual profit. A member of the Committee pointed out that a Hong Kong company, which prepares its financial statements in accordance with IFRS, had, in releasing its results, recently reported an item identified as 'Underlying Profit', which excluded the impact of changes in fair value of investment property and the deferred tax thereon thereby providing increased comparability with the results that would have been reported if the existing SSAP 13 had been applied. The member requested that the Committee consider this treatment in further detail at its next meeting along with a draft Invitation to Comment on the ED.

Proposed HKFRS 2 *Share-based Payment* (converged with IFRS 2)

The Committee agreed to consider HKFRS 2, and a recommendation to the HKSA Council to adopt HKFRS 2 for annual reporting periods beginning on or after 1 January 2005, at its next meeting.

2004 standard setting timetable - update

The Committee agreed to an updated copy of the Financial Reporting Standard project timetable. The timetable has been posted on the HKSA website at: <http://www.hksa.org.hk/professionaltechnical/accounting/dueprocess/HKFRS-timetable.pdf>.

Proposed replacement/withdrawal of SSAP 27

The Committee conducted an initial discussion on the possible withdrawal of SSAP 27 in light of the ED3 proposed replacement of SSAP 30 and the work of the Society's Accountant's Report Task Force. The Committee agreed to discuss this issue further at its next meeting.

Date of Next Meeting

The Committee will next meet on 22 March 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.