



Financial Reporting Standards Committee
Meeting summary – May 2005

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

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Raphael Ding (Deputy Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, C.F. Choy (Rep. by Mr. Vingle Yuen), Philip Hilliard, Saleem Razvi, Stephen Taylor, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Susanna Lau, Ms. Fanny Li and Mrs. Catherine Morley.

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

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. Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
3. Guidance on measurement of deferred tax on the revaluation of investment property in Hong Kong
4. First Financial Reporting Standards Forum to be held on 9 June 2005
5. Depreciation Accounting for tunnels in Hong Kong
6. IFRIC Draft Interpretations D12, D13 and D14 on *Service Concession Arrangements*
7. IFRIC Draft Interpretation D15 on Reassessment of Embedded Derivatives

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

The Committee considered the comment letters received from The Hong Kong and Shanghai Hotels, Limited and KPMG on Draft Interpretation 25 *Leases – Determination of the Length of Lease Term in Respect of Hong Kong Land Leases*.

The Committee noted the comment that there is an inconsistency between HKAS 17 *Leases* and HKAS 38 *Intangible Assets* and the comment that, had HKAS 38 been the applicable standard rather than HKAS 17, the conclusion reached in the Interpretation might have been different. The Committee agreed to highlight this to Mr. Warren McGregor, our liaison member with the IASB, by writing to him.

After deliberation, the Committee did not propose a change to the conclusion reached in this Interpretation. The Committee agreed to recommend Council to approve this proposed Interpretation to be issued as a final Interpretation with effect from the date of Council approval of the Interpretation.

2. **Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions***

The Committee received a copy of the proposed Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Cash Flow Hedge Accounting of Forecast Intragroup Transactions* that was based on the equivalent international Standard.

The Committee was asked to consider whether the proposed adoption of the transitional arrangement as set out in paragraph 108A would result in a conflict with the existing transitional provisions in paragraph 104(b) and 104(g) of HKAS 39.

The Committee did not reach a conclusion and decided to seek expert advice from the Big Four accounting practices on the above issue.

3. Guidance on measurement of deferred tax on the revaluation of investment property in Hong Kong

The Committee received a memo from the Expert Panel on Banking requesting the Committee to consider developing guidance on the measurement of deferred tax on the revaluation of an investment property in Hong Kong, in particular where management intends to recover the carrying amount of the property both through rental and subsequent sale.

The Committee generally considered, in the above case, that the profits tax rate should be used to measure the deferred tax on the revaluation of that property until such point in time when the entity could positively demonstrate that the property is held for sale. In order to demonstrate that the property is held for sale, the entity would make reference to the principles established in HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

4. First Financial Reporting Standards Forum to be held on 9 June 2005

The Committee noted that the Institute would be holding the inaugural session of the Financial Reporting Standards Forum on 9 June 2005. Sir David Tweedie, Chairman of the IASB, would be the keynote speaker for the Forum and would take part in a panel discussion on the HKFRS application issues to be chaired by the Chairman.

Members were invited to provide discussion items to the secretariat for passing on to the panel members for consideration.

5. Depreciation Accounting for tunnels in Hong Kong

The Committee was asked to consider whether allocation of tunnel cost over the franchise period in proportion to the projected toll revenue would be an appropriate method for charging depreciation on a tunnel.

The Committee was of the view that the "matching concept" is not a fundamental accounting concept under the HKFRS Framework. It is neither a qualitative characteristic of financial statements nor an underlying assumption. Depreciation should reflect the asset's service potential that occurs while the asset is held and not its ability to generate revenues. In the case of a tunnel, the future economic benefits embodied in the tunnel should represent its ongoing service potential, that is its ability to enable traffic to cross the harbour. Since the tunnel is subject to a fixed concession period, the tunnel's service potential should be considered to be consumed as the concession period elapsed. On the presumption that the tunnel itself has a useful life that extends beyond the concession period, the wear-and-tear should not be a principal factor in assessing the consumption of service potential. Accordingly, the tunnel should be depreciated over the shorter of its useful life and the lease period.

The Committee also noted that the IFRIC had recently concluded in its deliberation of certain issues related to service concessions that using an interest method of depreciation was not appropriate.

6. IFRIC Draft Interpretations D12, D13 and D14 on Service Concession Arrangements

The Committee noted that the IFRIC had extended the comment period for its Draft Interpretations D12, D13 and D14 on *Service Concession Arrangements* until the end of May. The Committee directed the secretariat to post a note on the Institute's website allowing an extension of receiving comments in response to the Hong Kong invitation to Comment until one week before the end of May.

Members were requested to pass their comments on the IFRIC Draft Interpretations to the secretariat.

7. IFRIC Draft Interpretation D15 on Reassessment of Embedded Derivatives

Members were requested to pass their comments on IFRIC Draft Interpretation D15 on Reassessment of Embedded Derivatives to the secretariat.

Date of Next Meeting

The Committee agreed to hold its next meeting on 8 June 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@hkiipa.org.hk.

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