



**Financial Reporting Standards Committee**  
**Meeting summary – November 2005**

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

Members of the Committee present were: Messrs. Paul F. Winkelmann (Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Tommy Fung, Saleem Razvi, Tommy Tam, Stephen Taylor, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Susanna Lau and Mrs. Catherine Morley.

Secretariat staffs present were: Mrs. Patricia McBride (Director, Standard Setting), Ms. Elsa Ho (Assistant Director, Standard Setting) and Ms. Elaine Chan (Assistant Director, Standard Setting).

The Committee discussed the following items:

1. Concern raised over the impact of fair value treatment of investment properties on earnings and EPS
2. Concern raised by the Education Manpower Bureau in respect of the accounting of fixed assets held by aided schools under HKAS 16 (with no exemption from compliance)
3. Amendments to HKAS 27 *Consolidated and Separate Financial Statements* and HKFRS 3 *Business Combinations* and the appendix on the notes on legal requirements in Hong Kong in HKAS 1 *Presentation of Financial Statements* consequent on the change in definition of subsidiary
4. Proposed Guideline on Merger Accounting
5. Next Financial Reporting Standards Forum
6. Submission on the IASB Exposure Drafts on proposed Amendments to IFRS 3, IAS 27, IAS 37 and IAS 19
7. Submission on the IASB Draft Technical Correction 1
8. Accounting for owner-used properties in Hong Kong

**1. Concern raised over the impact of fair value treatment of investment properties on earnings and EPS**

The Committee noted the concern raised over the impact of the fair value treatment of investment properties under HKAS 40 *Investment Property* on earnings and earnings per share.

The Committee noted that the EPS Standard only permits a EPS prepared on another basis to be disclosed in the notes and thus requiring an additional EPS to be presented on the face of the income statement would be a departure from IFRSs. The Committee did not consider it appropriate to require mandatory additional disclosures and had concerns about the potential for future requests for differences from IFRSs if a disclosure requirement is added in this respect. The Committee however agreed that, if additional information is considered relevant to an understanding of the entity's financial performance, HKAS 1 *Presentation of Financial Statements* requires such information to be presented.

The Committee noted that The Committee of European Securities Regulators ("CESR") has issued a Consultation Paper "CESR Recommendation on Alternative Performance Measures" and considered that it might be useful for preparers of financial statements to make reference to the proposals under that project when reporting on the performance of an entity. The Committee however did not consider a need to draw this specific issue to the attention of the IASB, but determined to raise the issue in commenting on future documents from the IASB addressing the reporting of performance.

A concern was raised about the impact of fair value accounting on distributable profits. The Committee noted that the UK Standard Setter is revising its guideline on the determination of distributable profits and therefore directed the secretariat to monitor the progress of the revision so that the Committee could consider adopting the guideline in Hong Kong once it is finalised.

**2. Concern raised by the Education Manpower Bureau in respect of the accounting of fixed assets held by aided schools under HKAS 16 (with no exemption from compliance)**

The Committee considered the proposed transitional provisions for those entities that had previously been exempted from compliance with SSAP 13 *Accounting for Investment Properties* and SSAP 17 *Property, Plant and Equipment* to be included in HKAS 16 *Property, Plant and Equipment*, HKAS 17 *Leases* and HKAS 40 *Investment Property*.

The Committee did not consider it appropriate to restrict the application of the proposed transitional provisions in HKAS 16 to cases where it would be impracticable to trace back the original cost of the asset as this is addressed in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Committee considered that the transitional provisions in HKAS 16 should be applied to those entities that had previously taken advantage of the exemption under SSAP 13 and SSAP 17 rather than those entities that were exempted from compliance with SSAP 13 and SSAP 17.

The Committee decided that the proposed transitional provision to be included in HKAS 40 should be merged with the current transitional provision in HKAS 40 for those entities that applied SSAP 13 previously.

The Committee decided not to include a transitional provision in HKAS 17 but agreed to revisit this if it emerges as a problem in the future.

The Committee directed the secretariat to revise the proposed transitional provisions along the above line. The Committee agreed to recommend Council to approve the proposed transitional provisions, after taking into account the Committee's comments, for inclusion in HKAS 16 and HKAS 40.

**3. Amendments to HKAS 27 Consolidated and Separate Financial Statements and HKFRS 3 Business Combinations and the appendix on the notes on legal requirements in Hong Kong in HKAS 1 Presentation of Financial Statements consequent on the change in definition of subsidiary**

The Committee received and considered copies of the proposed revised amendments to HKAS 27, HKFRS 3 and notes on legal requirements in Hong Kong in HKAS 1 resulting from the change in the legal definition of subsidiary from 1 January 2006. The Committee also noted that legal advice was being sought on whether the Companies Ordinance contains any restriction preventing an entity from restating its comparative information in its financial statements prepared for the periods subsequent to the implementation of the Companies (Amendment) Ordinance 2005.

Subject to receipt of the legal advice, the Committee agreed to recommend Council to approve the proposed amendments to HKAS 27, HKFRS 3 and notes on legal requirements in Hong Kong in HKAS 1.

*(Post meeting note: The Committee subsequently received a legal advice that concludes that comparative amounts should be restated in the above circumstance.)*

**4. Proposed Guideline on Merger Accounting**

The Committee received the version of the proposed guideline on merger accounting that was approved by the Working Group.

The Committee agreed that, for statutory reporting purposes, common control combinations that take place after the balance sheet date should be treated as non-adjusting events but, for other reporting purposes, it could be up to the relevant framework to decide. The Committee therefore agreed that the Guideline should not address this issue but to consider including guidance on such in the SIR series.

Subject to certain minor wording changes to the appendix, the Committee agreed to recommend Council to approve the proposed guideline to be issued as a final accounting guideline. The Committee also agreed to recommend Council to withdraw SSAP 27 *Accounting for Group Reconstructions* with immediate effect.

**5. Next Financial Reporting Standards Forum**

The Committee noted that an invitation-only lunch for CEOs would be held on 11 January 2006 or 12 January 2006 depending on the availability of venue and that Mr. Vernon Moore would be the keynote speaker at that lunch. The next Financial Reporting Standards Forum will instead be held some time in February and March depending on Sir David Tweedie's visit to Hong Kong.

**6. Submission on the IASB Exposure Drafts on proposed Amendments to IFRS 3, IAS 27, IAS 37 and IAS 19**

The Committee ratified the submission on the IASB Exposure Drafts on proposed Amendments to IFRS 3, IAS 27, IAS 37 and IAS 19 dated 3 November 2005. A copy of the submission can be found in [http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/IASB\\_ED\\_amendment.pdf](http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/IASB_ED_amendment.pdf).

**7. Submission on the IASB Draft Technical Correction 1**

The Committee ratified the submission on the IASB Draft Technical Correction 1 and Proposed Policy for Technical Corrections dated 7 November 2005. [http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/IASB\\_DTC\\_Tech\\_Corr.pdf](http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/IASB_DTC_Tech_Corr.pdf)

**8. Accounting for owner-used properties in Hong Kong**

Members raised a number of issues concerning the accounting for owner-used properties in Hong Kong. After deliberation, the Committee directed the secretariat to research on the appropriate treatment for a owner-used property located in Hong Kong, based on a sample of transactions, with a view to making a recommendation to the Committee for consideration.

### Date of Next Meeting

The Committee agreed to hold its next meeting on 7 December 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](mailto:commentletters@hkiipa.org.hk).

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**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.**