



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

The Institute's Financial Reporting Standards Committee (Committee) met on 12 October 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), Tommy Fung, Paul Hebditch, Philip Hilliard, Saleem Razvi, Tom Wu (Rep. by Jacky Tsang), Ms. Olivia Cheung, Ms. Susanna Lau and Mrs. Catherine Morley (Rep. By Mr. William Crowe).

Secretariat staff present were: Mr. Stephen Chan (Executive Director), Mrs. Patricia McBride (Director, Standard Setting) and Ms. Elsa Ho (Assistant Director, Standard Setting).

The Committee discussed the following items:

1. Exposure Draft of proposed Amendments to IFRS 3 *Business Combinations*
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 Accounting Guideline on Merger Accounting
5. Draft Questions and Answers on the HKFRS application issues raised at the last annual update
6. Feedback after attending the IASB Conference with World Standard Setters
7. Next Financial Reporting Standards Forum
8. Submission on the IASB proposed policy for technical corrections

**1. Exposure Draft of proposed Amendments to IFRS 3 *Business Combinations***

The Committee noted that the deadline for receiving comments in response to the Committee's invitation to comment on the Exposure Draft of proposed Amendments to IFRS 3 *Business Combinations* had expired without any responses being received.

The Committee directed the secretariat to prepare a draft submission for consideration by the Committee.

**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 noted the concern raised by the Education Manpower Bureau in respect of the accounting of fixed assets held by aided schools under HKAS 16 *Property, Plant and Equipment*. The concern is that some aided schools that were previously exempted from compliance with the requirement under SSAP 17 *Property, Plant and Equipment* had encountered difficulties in tracing back the cost of the assets when applying HKAS 16. This concern would also extend to other entities that were previously exempted under SSAP 17.

In the light of the concern, the Committee decided to develop a transitional provision for those entities that took advantage of the exemption under SSAP 17 to take the carrying amount of their assets as deemed cost for subsequent accounting. The Committee directed the secretariat to draft a transitional provision along the above line for consideration by the Committee. The Committee did not consider a need to expose the transitional provision

and would therefore recommend to Council to adopt the transitional provision once it has been approved by the Committee without exposure.

A member then asked whether a transitional provision similar to the above should be included in HKAS 40 *Investment Property* given that the old SSAP 13 *Accounting for Investment Properties* might contain an exemption similar to that in SSAP 17. The Committee generally considered a transitional provision should not be granted under HKAS 40. However, the Committee directed the secretariat to investigate the exemption under SSAP 13 before it makes a final decision.

*(Post meeting note: At its subsequent meeting, the Committee noted that SSAP 13 contained an exemption similar to that in SSAP 17 and thus decided to include a transitional provision in HKAS 40 for the sake of completeness.)*

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 was presented with the proposed 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* following the decision of the Committee at the last meeting to withdraw the special provisions for Hong Kong incorporated companies from the date when the changes brought about by the Companies (Amendment) Ordinance 2005 become effective.

Given that HKAS 27 and HKFRS 3 are effective only from 1 January 2005, the Committee decided not to remove the special provisions for Hong Kong incorporated companies in those Standards but to include a paragraph in the effective date section to specify that those provisions should be applied for accounting periods beginning on or after 1 January 2005 but would cease to be applied for accounting periods beginning on or after 1 January 2006. As far as the revision to the legal requirement in Hong Kong in HKAS 1 is concerned, the Committee decided not to replicate the changes in the Companies (Amendment) Ordinance 2005 but to include only a paragraph stating that the Companies (Amendment) Ordinance 2005 would enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts for accounting periods beginning on or after 1 January 2006.

A member then questioned as to whether an entity would be permitted to restate its comparatives in its financial statements for the periods beginning on or after 1 January 2006 following the implementation of the above proposed amendments to HKAS 27 and HKFRS 3. The general view of the Committee was affirmative since members were unaware of any provisions in the Companies Ordinance that would prohibit restating comparatives in such circumstance. Nevertheless, the Committee directed the secretariat to consider seeking legal advice on this matter.

4. **Proposed Accounting Guideline on Merger Accounting**

The Committee noted the progress of the Working Group on drafting the proposed Accounting Guideline on Merger Accounting.

There were concerns about the specification in the latest version of the draft that business combinations that take place subsequent to the balance sheet date but before the approval of the consolidated financial statements ('subsequent business combinations') should be

treated as a non-adjusting event. It was pointed out that the intent of the Committee was to ask the Working Group to come up with some guidance on applying merger accounting in preparing financial statements to be included in the investment circulars and US GAAP allows subsequent business combinations to be treated as an adjusting event in the accounts included in the investment circulars.

In the light of the above, the Committee decided to refer the above concerns to the Working Group for consideration and requested the Working Group to consider revising the guideline on the presumption that it would form part of the SIR series rather than the accounting series.

Given that the SIR series, including the guideline, could only be issued after the listing rules had been amended (which is not likely to be before the end of 2005) and there is a need to withdraw SSAP 27 before the end of 2005 because of its inconsistency with HKFRS 3, the Committee decided to withdraw SSAP 27 and to make available the guideline on the website, once it is ready, for reference together with a note of intent that the guideline would be issued as part of the SIR series once the listing rules had been amended.

**5. Draft Questions and Answers on the HKFRS application issues raised at the last annual update**

The Committee received a memo from the secretariat setting out some issues identified during the development of an answer to a question raised at the last annual update, which concerns the accounting of a lease of land and buildings where the lease payment cannot be allocated reliably between the two components. The issues include whether the provision in HKAS 17, which permits non-separation of land and building where the lease payment cannot be reliably allocated between the land and building components, over-rides the requirement in HKAS 16 to separate the land from the building for depreciation purposes and, if so, what is the appropriate useful life to be used if the useful life of land differs from the useful life of buildings.

The Committee noted that the present practice appeared to suggest that the lease payments for land and buildings in Hong Kong can be allocated and, as a consequence, the issues identified would disappear. However, in the light of this, the Committee agreed that there is a need to address the issue previously raised by the banks that they would not be able to carry all of their own-used land and buildings at valuation under the new Standards and thus impacting their capital adequacy ratio. The Committee directed the secretariat to refer this issue to the Expert Panel on Banking (EPB) for consideration and to recommend the EPB arrange a meeting with the Monetary Authority to discuss this issue as a matter of urgency. The Committee also directed the secretariat to refer this issue to the Expert Panel on Insurance (EPI) and ask them whether they would envisage a problem for insurance companies similar to that for banks.

In the case where the lease payments for land and buildings cannot be allocated reliably for the purpose of depreciation calculation, the Committee considered that the preparers of financial statements should use a sensible basis in arriving at the correct treatment and disclose the treatment in the notes.

**6. Feedback after attending the IASB Conference with World Standard Setters**

The Chairman gave a verbal report to the Committee regarding the world standard setters meeting which he attended with Mr. P.M. Kam. In particular, he highlighted that Sir David Tweedie had expressed a view in his speech that, when a national standard setter encountered an issue that required an interpretation, the national standard setter should, instead of issuing its own interpretation, inform the IFRIC or IASB about the issue and

request them to consider adding the issue to its agenda. He then passed a copy of the progress list of issues that were being considered by the IFRIC to the secretariat for circulating to the Committee for note. He also gave some details about the discussion regarding the SME project and the memorandum of understanding of the role of national standard setters and their relationship with the IASB.

## **7. Next Financial Reporting Standards Forum**

The Committee proposed that a financial reporting standards forum be arranged in late November as it would provide an opportunity for the Committee to identify the impact in Hong Kong of the fully converged standards, to review the convergence process and to discuss any difficulties that have arisen for report preparers, auditors and users after having worked with the fully converged standards.

The Committee then directed the secretariat to find a venue for the forum. The forum would last for three hours and would target 200 participants, mainly chief executives and finance directors, although an open invitation would be made to all members.

*(Post meeting note: It was subsequently decided that an invitation-only lunch for CEOs instead of a forum should be arranged.)*

## **8. Submission on the IASB proposed policy for technical corrections**

The Committee ratified the interim submission on the IASB proposed policy for technical corrections dated 4 October 2005. A copy of the interim submission can be obtained from [http://www.hkicpa.org.hk/professionaltechnical/accounting/submissions/Submission\\_051019.pdf](http://www.hkicpa.org.hk/professionaltechnical/accounting/submissions/Submission_051019.pdf)

The Committee agreed that, in drafting its comment on Draft Technical Correction 1 *Proposed Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation*, a concern should be raised about the IASB proposing changes to a Standard that would be considered beyond merely technical corrections.

### Date of Next Meeting

The Committee agreed to hold its next meeting on 9 November 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@hkicpa.org.hk](mailto:commentletters@hkicpa.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.**