



Financial Reporting Standards Committee
Meeting summary – December 2006

The Institute's Financial Reporting Standards Committee (Committee) met on 13 December 2006.

Members of the Committee present were: Paul F. Winkelmann (Chairman), Raphael Ding (Deputy Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Colin Chau, Tommy Fung, Susanna Lau, Fanny Li, Li Kwok Tso, Catherine Morley, Tommy Tam, Stephen Taylor and Stephanie Zurmuhlen.

Secretariat staff present were: Patricia McBride, Elaine Chan and Steve Ong.

The Committee discussed the following items:

1. Proposed HKFRS 8 *Operating Segments*
2. Proposed HK(IFRIC) Interpretation 11 *HKFRS 2 – Group and Treasury Share Transactions*
3. Proposed HK(IFRIC) Interpretation 12 *Service Concession Arrangements*
4. IASB Discussion Paper *Fair Value Measurements*
5. Draft Policy on providing Interpretations or Rulings on financial reporting issues
6. Report from the SME Financial Reporting Framework Sub-Committee
7. Referral from the Expert Panel on Securities on the accounting treatment of clients' trust monies held in trust or segregated accounts by licensed corporations
8. IASB/FASB round-table discussions on measurement
9. Meeting of the National Standard Setters

1. Proposed HKFRS 8 Operating Segments

The Committee noted that the IASB had recently issued IFRS 8 *Operating Segments* and that the IASB had not taken up the Institute's comments made in its submission on ED 8 *Operating Segments* regarding the concerns about the use of the management approach to segment reporting.

The Committee considered that since most respondents to ED 8 supported the adoption of the management approach and that the IASB had taken due consideration of the Institute's comments as noted in the IASB's Basis for Conclusions, the Committee agreed to recommend Council to approve the issue of the Hong Kong equivalent of IFRS 8 as a final Standard with effect for annual periods beginning on or after 1 January 2009.

2. Proposed HK(IFRIC) Interpretation 11 HKFRS 2 – Group and Treasury Share Transactions

The Committee considered a proposed HK(IFRIC) Interpretation 11 *HKFRS 2 – Group and Treasury Share Transactions* which sought to adopt verbatim IFRIC Interpretation 11.

It was noted that in the Institute's submission on D17 *IFRS 2 – Group and Treasury Share Transactions* from which IFRIC Interpretation 11 was developed, the Institute expressed concern over the proposals as these could lead to structuring of arrangements to achieve desired accounting results. The Committee also noted from the Basis of Conclusions how the IFRIC explains its reasons for reaffirming its view stated in D17. The Committee agreed to follow the IFRIC's conclusions.

Accordingly, the Committee agreed to recommend Council to approve the issue of the proposed HK(IFRIC) Interpretation 11 as a final Interpretation with effect for annual periods beginning on or after 1 March 2007 with earlier application permitted.

3. Proposed HK(IFRIC) Interpretation 12 Service Concession Arrangements

The Committee noted that the IFRIC had recently issued IFRIC Interpretation 12 *Service Concession Arrangements*.

It was noted that in the Institute's submission on D12 *Service Concession Arrangements – Determining the Accounting Model*, D13 *Service Concession Arrangements – the Financial Asset Model* and D14 *Service Concession Arrangements – the Intangible Asset Model* from which IFRIC Interpretation 12 was developed, the Institute requested for more guidance. The Committee also noted that changes had been made in the final IFRIC Interpretation 12 which addressed the Institute's request for additional guidance on determining which accounting model should be applied so as to avoid any abuse or selective treatment and another request for more appropriate and substantive arguments to support the use of the "control of use approach" instead of the "risks and rewards of ownership" approach in determining whether service concession infrastructure should be recognised by an operator as property, plant and equipment.

Accordingly, the Committee agreed to recommend Council to approve the issue of the Hong Kong equivalent of IFRIC Interpretation 12 *Service Concession Arrangements* as a final Interpretation with effect for annual periods beginning on or after 1 January 2008.

4. IASB Discussion Paper Fair Value Measurements

The Committee considered and approved a draft Invitation to Comment on the IASB Discussion Paper *Fair Value Measurements* for public consultation until 12 March 2007.

5. Draft Policy on providing Interpretations or Rulings on financial reporting issues

The Committee noted that Council had considered a draft Policy on providing Interpretations or Rulings on financial reporting issues which was based on the principles discussed by the Committee at its last meeting and that Council had directed the Standard-setting Steering Board, the Auditing and Assurance Standards Committee, the Ethics Committee and the Committee to review the draft Policy before its final approval by Council.

The Committee made a number of suggestions and requested the secretariat to revise the draft Policy for discussion by the Committee at its next meeting.

6. Report from the SME Financial Reporting Framework Sub-Committee

The Chairman updated the Committee with the recent discussion of the Joint Government/HKICPA Companies Ordinance Review Working Group regarding consideration of the applicability of section 141D of the Companies Ordinance to companies limited by guarantee and the proposed revised criteria in respect of shareholders' consent for a company to be eligible for electing section 141D.

The Committee then considered a revised draft Invitation to Comment on the IASB's proposed IFRS for SMEs prepared by the SME Financial Reporting Framework Sub-Committee (SMESC) regarding the deletion of the reference to a three-tier system.

The Committee also considered and had no comment on the SMESC's proposal to mention the Institute's consideration of its IFAC Statements of Membership Obligations compliance status and its plan to liaise with the IFAC regarding whether non-adoption of the proposed IFRS for SMEs would have implications on Hong Kong's compliance status.

Subject to certain editorial changes, the Committee agreed to recommend Council to approve the Invitation to Comment for issue upon the issuance of the proposed IFRS for SMEs by the IASB.

7. Referral from the Expert Panel on Securities on the accounting treatment of clients' trust monies held in trust or segregated accounts by licensed corporations

The Committee considered a referral from the Expert Panel on Securities regarding inconsistencies in the accounting treatment of client monies held in trust or segregated accounts by licensed corporation. It was noted that some preparers treat these accounts as off balance sheet items and some other preparers treat them as on balance sheet.

The Committee had a lengthy deliberation and concluded that since trust arrangements varied significantly, there would not be a generic solution to the issue on "inconsistencies" in accounting treatment as the appropriate accounting treatment would depend on the facts and circumstances of a particular trust arrangement.

8. IASB/FASB round-table discussions on measurement

The Committee noted that the Institute would organise a HKFRS/IFRS Forum in the morning of 16 January 2007 with IASB Board members and the IASB Director of Technical Activities as speakers to discuss accounting for leases, financial statement presentation and the IASB work programme. It was also noted that the Institute would hold a dinner with the IASB delegation to which members of the Committee would be invited.

[Post meeting note: The IASB Roundtables on measurement were held on 16-17 January 2007 at the Institute and the HKFRS/IFRS Forum was held in the morning of 16 January 2007 attended by 180 members of the Institute.]

9. Meeting of the National Standard Setters

The Committee noted that the Institute had been invited by the UK Accounting Standards Board to host the next National Standards Setters meeting which had been scheduled for 24-25 March 2007.

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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