

Financial Reporting Standards Committee
Meeting summary – January 2006

The Institute's Financial Reporting Standards Committee (Committee) met on 11 January 2006.

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 Vingle Yuen), Paul Hebditch, Li Kwok Tso, 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: 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. The appropriate treatment for an owner used property in Hong Kong
2. HKAS 39 – Transitional arrangements for AFS financial assets
3. Limited amendment to International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates*
4. Revised Guidance on Implementing IFRS 4 *Insurance Contracts*
5. Work Programme for 2006

1. The appropriate treatment for an owner used property in Hong Kong

The Committee continued to discuss issues regarding the accounting for owner used property in Hong Kong. In applying the relevant Standard, the Committee considered that, for such accounting, the measurement objective should be to split the land and building based on their relative fair values. The Committee, however, recognised that there are many ways to arrive at the relative fair values and the methods used by valuers are not necessarily unacceptable.

The Committee also acknowledged that professional judgement should be applied in determining whether land and buildings can be separated and, if land and buildings are separated, how the components should be estimated. Preparers should use their own judgement in arriving at the appropriate treatment. Entities should also disclose their accounting policy in relation to the separation of land and buildings.

2. HKAS 39 – Transitional arrangements for AFS financial assets

A concern was raised in respect of the restatement of financial assets previously carried at cost less provision under SSAP 24 (namely investment securities under the benchmark treatment and held to maturity securities), which are being carried as available for sale (AFS) under HKAS 39 i.e. at fair value through equity.

The transitional provisions set out in HKAS 39.104(d) currently states that "any adjustment of the previous carrying amount should be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this standard is applied". The concerns were:

- (a) the transitional provisions in HKAS 39 are not clear as to whether the amounts held in equity in respect of these assets as a result of the opening balance adjustments can or should be re-cycled on their subsequent disposal - this will lead to inconsistency in future reporting between entities; and

- (b) if an entity adopts a policy of subsequent re-cycling, then it seems inappropriate that the entity is required to initially put the opening balance adjustment through retained earnings rather than restating the AFS reserve.

After considering the issue, the Committee agreed to add "or if appropriate, another category of equity" after the words "retained earnings" in HKAS 39.104(d) to allow entities to make the opening balance adjustments directly to the AFS reserve where appropriate. However, in doing so, the Committee also agreed that a remark should be included to remind preparers of financial statements of the requirement to apply the revised transitional provision consistently for all similar transactions and to disclose their accounting policy.

In light of the above, the Committee agreed to recommend Council to approve the minor amendment to the transitional provision in HKAS 39.104(d) with immediate effect.

(Post meeting note: Council approved the minor amendment to the transitional provision in HKAS 39 at its January meeting.)

3. Limited amendment to International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates*

The Committee noted that the International Accounting Standards Board recently issued a limited amendment to International Accounting Standard (IAS) 21 *The Effects of Changes in Foreign Exchange Rates* ("the Limited Amendment") finalizing the proposals that were contained in the IASB's Draft Technical Correction (DTC) 1 Proposed Amendments to IAS 21 *Net Investment in a Foreign Operation* published in September 2005. The Committee also noted that, in its submission, the Institute expressed support for those proposals provided that they were adopted as amendments to IAS 21, not technical corrections.

In light of the above, the Committee agreed to recommend Council to approve the issue of a Hong Kong equivalent of the Limited Amendment with effect for annual periods beginning on or after 1 January 2006 (with earlier adoption encouraged), which is the same as the effective date of the Limited Amendment.

(Post meeting note: Council approved Limited Amendment to HKAS 21 at its January meeting.)

4. Revised Guidance on Implementing IFRS 4 *Insurance Contracts*

The Committee noted that the IASB recently published revised Guidance on Implementing IFRS 4 *Insurance Contracts* ("Revised Guidance").

Given that the Revised Guidance is consequential on the issue of IFRS 7 which has been adopted in Hong Kong, the Committee agreed to recommend Council to issue a Hong Kong equivalent of the Revised Guidance in accordance with the Institute's convergence policy.

(Post meeting note: Council approved in principle the adoption of the Revised Guidance on Implementing IFRS 4 Insurance Contracts at its January meeting.)

5. Work Programme for 2006

The Committee received and considered the proposed work programme for 2006. The Committee agreed that the bulk of the work programme for 2006 would be on international convergence. However, the Committee also agreed to include the following in its work programme:

International convergence

- More discussion with preparers and other interest groups would be made.
- When the IASB issues an exposure draft of a new Standard or Interpretation that is applicable to a specific industry, consultation with that industry would be made before making a submission to the IASB.
- Regulators would be consulted over key issues.
- More “to do” items might have to be included once the consultation paper on standard setting has been completed.

Forum

- Two more forums would be held in 2006 – one in May and the other in September.
- The May forum would deal with application issues arising from quarterly reporting and how well entities are prepared for interim reporting and year-end reporting.
- The September forum would consider issues arising from applying new Standards and proposed solutions in preparation for year-end reporting.

Local Guidance

- The Committee would monitor issues arising from the accounting of REIT.
- The secretariat should research the latest version of the Technical Bulletin on the determination of realised profits when it is issued in the UK and provide a recommendation to the Committee as to whether or not it can be adopted in Hong Kong.

SME

- The SME Working Group would be asked to consider the proposal to expand the application of SME-FRS to groups and to monitor international development on the accounting for SME.
- Interpretations on SME-FRS would however be dealt with by the Committee.

During the discussion, members agreed to look into the issue of whether a Hong Kong subsidiary of an overseas company can apply SME-FRS and the Committee would consider it at the next meeting.

Date of Next Meeting

The Committee agreed to hold its next meeting on 15 February 2006.

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@hki CPA.org.hk.

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