



Financial Reporting Standards Committee
Meeting summary – March 2006

The Institute's Financial Reporting Standards Committee (Committee) met on 8 March 2006.

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

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

The Committee discussed the following items:

1. HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (consolidation of consequential amendments)
2. IFRIC Interpretation D 18 *Interim Financial Reporting and Impairment*
3. IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*
4. Interest-free inter-company loans at fair value
5. Disclosure of directors' share option as remuneration
6. IASB staff request for information from users about fair value accounting
7. Meaning of "available for public use"

1. **HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (consolidation of consequential amendments)**

The Committee received a copy of the proposed revised HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* which had consolidated all the amendments consequential on the issue of the following new Standards and Interpretations and Amendments to Standards issued in 2004 and 2005:

- HK(IFRIC)-Ints 1 and 4;
- HKFRS 6 *Exploration for and Evaluation of Mineral Resources*;
- *Amendment to HKAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*;
- *Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Transitional and Initial Recognition of Financial Assets and Financial Liabilities*;
- *Amendment to HKAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*;
- Amendments to HKFRS 1 and HKFRS 6; and
- HKFRS 7 *Financial Instruments: Disclosures*.

The Committee approved the proposed revised HKFRS 1 to be submitted to Council for approval to be issued as a final revised Standard. The Committee also agreed that there is no need to remove the consequential amendments set out in the appendices of the relevant Standards as a result of issuing the revised HKFRS 1. However, a footnote would be included in the introduction section of the revised HKFRS 1 to explain this effect.

2. IFRIC Interpretation D 18 *Interim Financial Reporting and Impairment*

The Committee considered the submission received on IFRIC Interpretation D18 and generally agreed with the views expressed therein. The Committee agreed to include the following in its submission to the IASB:

- to acknowledge that there is a debate on this issue and the issue has two possible solutions;
- to point out that, in the Committee's view, the IFRIC has proposed the wrong solution; and
- to express a view that the year-to-date (YTD) principle is fundamental to IAS 34 and thus such principle should be reinforced in the final Interpretation.

The Committee then directed the secretariat to prepare a draft submission to be considered and approved by circulation.

3. IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*

The Committee considered IFRIC Interpretation 9 *Reassessment of Embedded Derivatives* and agreed to recommend Council to issue a Hong Kong equivalent of IFRIC 9 without any modification with effect for annual accounting periods beginning on or after 1 June 2006 (with earlier application encouraged).

4. Interest-free inter-company loans at fair value

The Committee discussed the issue of measuring an interest-free inter-company loan at fair value on initial recognition. Members considered that, where an interest-free loan does not have a fixed term of repayment, the loan should be measured based on the anticipated timing of repayment. If the expectation is that the loan is repayable on demand, there is no need to discount the loan on initial recognition but it should be disclosed as current. However, if the expectation is that the loan would not be repayable within one year, the Standard requires it to be discounted. However, if preparers decided not to discount an interest free loan based on materiality, the auditors should treat the discounted portion as an unadjusted error. The Committee did not consider there is a need to issue any specific guidance on it.

5. Disclosure of directors' share option as remuneration

A member raised a concern that AB 3 *Guidance on Disclosure of Directors' Remuneration* had not been updated as a consequence of issuing HKFRS 2 *Share-based Payment*, in particular on the issue as to whether the amount recognised for the share options granted to directors should be included in the amount of directors' remuneration required to be disclosed under the Companies Ordinance. The Committee agreed that a limited revision to AB 3 would be required. The Committee however decided not to rush guidance before June in order to avoid confusion in the middle of the reporting season.

6. IASB staff request for information from users about fair value accounting

The Committee noted that the IASB and US FASB were seeking input from users of financial statements about information on financial instruments that is useful to those making investment or credit decisions or advising others on investment or credit decisions. The Committee directed the secretariat to write to the following user groups in Hong Kong to draw their attention to the above request and to encourage them to make a response to the IASB:

- Hong Kong Association of Banks
- Hong Kong Investment Funds Association
- Hong Kong Society of Financial Analysts
- Office of the Commission of Insurers
- Government (for forwarding to the relevant departments)

7. Meaning of “available for public use”

A member raised a query about the meaning of the “available for public use” in the context of the exemption conditions under HKAS 27. The Committee agreed that reports can be “available for public use” even where “filing” is not required. Accordingly, although Hong Kong does not have a filing requirement, it does not mean the “available for public use” condition can never be satisfied in Hong Kong. The Committee accepted that the condition “available for public use” should be interpreted in the broadest sense. For example, if the consolidated financial statements of the parent would be made available whenever requested, the “available for public use” condition would generally be satisfied.

Date of Next Meeting

The Committee agreed to hold its next meeting on 12 April 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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