



Financial Reporting Standards Committee
Meeting summary – September 2006

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

Members of the Committee present were: Paul F. Winkelmann (Chairman), Raphael Ding (Deputy Chairman), Wilson Fung (Deputy Chairman), Chan Lok Sang, Mabel Cheung, Edward Chow, James Fawls, Tommy Fung, Paul Hebditch, Susanna Lau, Li Kwok Tso, Catherine Morley, Tommy Tam and Tsang Kwok Yuk.

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

The Committee discussed the following items:

1. Proposed revised Preface to HKFRSs
2. HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*
3. IASB Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*
4. IASC Foundation's Consultation Document – Due Process of IFRIC Handbook
5. Report from the SME Financial Reporting Framework Sub-Committee

1. Proposed revised Preface to HKFRSs

The Committee received and considered a revised draft copy of proposed revised Preface to HKFRSs that included changes proposed by the secretariat to reflect the comments made by the Committee at its last meeting.

Subject to some minor changes, the Committee approved the revised draft to be submitted to the Standard-setting Steering Board (SSSB) for consideration before sending it to Council for approval. The Committee noted the need to develop a documented due process for Small GAAP and referred this to the Sub-Committee for action.

(Post meeting note: Subsequent to the last meeting, SSSB considered the revised draft with no further comments. The revised draft will therefore be submitted to the Council for approval at its next meeting.)

2. HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Committee received a copy of proposed HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment* that is converged with IFRIC 10 recently issued by the IFRIC.

The Committee noted that it had previously raised concerns about the conclusion reached in the Interpretation in its submission to the IFRIC. The Committee however noted that, based on a review of the published comments on the IASB website, views given by commentators were diverse but majority of them supported the conclusion reached in the Interpretation. In the light of this, the Committee saw no reason to depart from the conclusion that had received majority support internationally. Accordingly, the Committee approved the proposed HK(IFRIC)-Int 10 to be submitted to Council for approval to be issued as a final Interpretation with effect for accounting periods beginning on or after 1 November 2006.

(Post meeting note: HK(IFRIC)-Int 10 was subsequently approved by Council and issued as Update 32.)

3. IASB Exposure Draft of Proposed Amendments to IAS 23 Borrowing Costs

The Committee noted that the secretariat did not receive any comment letters in response to the HK invitation to comment on the IASB Exposure Draft of Proposed Amendments to IAS 23 *Borrowing Costs*. The Committee then considered a draft submission on the IASB Exposure Draft prepared by the secretariat.

The Committee approved the draft submission to be presented to Council for approval. The draft submission, once approved, will be made available on the HKICPA website.

(Post meeting note: Subsequent to the last meeting, the secretariat received two submissions on the Exposure Draft. The views given in these submissions are consistent with the overall view expressed in the HKICPA submission.)

4. IASC Foundation's Consultation Document – Due Process of IFRIC Handbook

The Committee noted that the secretariat did not receive any comment letters in response to the HK invitation to comment on the IASC Foundation's Consultation Document on the Due Process of IFRIC Handbook. The Committee then considered a draft submission on the Consultation Paper prepared by the secretariat.

A member raised concerns about the proposed response to the proposal of the IFRIC not to consider and comment on local interpretations issued by a national standard-setter. After deliberation, the Committee proposed that the response to the proposal should be rewritten along the following lines:

- IFRIC should not comment publicly on a local interpretation issued by a national standard setter (NSS);
- When a NSS issues a draft local interpretation for consultation, the NSS should be encouraged to consult the IFRIC as part of its due process so that any comments received from the IFRIC could be taken into account when the NSS finalises the local interpretation.

The Committee however agreed to seek views from the SSSB before finalising the response.

In addition, a member proposed and the Committee agreed to express in the draft submission a need for the IFRIC to update its published list of items not taken to its agenda, including its reasons, on a regular basis in order to avoid any misunderstanding.

Subject to the above, the Committee approved the draft submission to be presented to Council for approval. The submission, once approved, will be made available on the HKICPA website.

(Post meeting note: SSSB considered the draft response and made a few comments. The revised submission was subsequently approved by Council and sent to the IASB.)

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

The Committee received the meeting notes of the last meeting of the SME Financial Reporting Framework Sub-Committee (SME SC).

(a) Development of guidance for SME groups

The Committee noted the SME SC, in developing the guidance on the preparation

and presentation of consolidated financial statements, had come to the views that the following options should be permitted for SMEs in accounting for goodwill:

1. Stating goodwill at cost less accumulated amortisation and accumulated impairment losses. There will be a rebuttable presumption that the amortisation period for goodwill should not be more than 5 years from the date of acquisition. Impairment assessment of goodwill will only be needed if there is an indication of impairment; or
2. Immediate write off of goodwill against profit or loss.

The Committee also noted that the SME SC had agreed the following changes to be made to a draft section on business combinations and goodwill that would result in differences when compared with the accounting under HKFRSs:

- To remove the reference to non-current assets held for sale (or disposal groups) in the paragraph specifying how assets and liabilities acquired should be accounted for in the consolidated financial statements. The effect of this removal is that all the identifiable assets and liabilities of acquirees that satisfy the recognition criteria under the SME-FRS, regardless of whether they are acquired for use or for sale, would have to be recognised at their fair values at the date of acquisition.
- To remove the paragraph that scoped out combinations of entities or businesses under common control. The effect of such a removal would be to require all business combinations to be accounted for using the acquisition method.
- To remove the requirement for recognising identifiable contingent liabilities in the consolidated financial statements at their fair value.
- To amend the paragraphs concerning goodwill to reflect the proposals made out of the earlier discussion of the SME SC as set out above.

A member then raised a concern about the proposed removal of the paragraph that scoped out combinations of entities or businesses under common control as this would make the SME FRS more onerous than HKFRSs. The Committee agreed to ask the SME SC to reconsider this issue at its next meeting.

(b) Consideration of the latest draft of proposed IFRS for SME

The Committee noted the following matters arising from the SME SC's discussion of the latest draft of the proposed IFRS for SME:

- The SME SC was informed that the IASB staff had indicated at the China, Japan and Korea standard-setters meeting held in August 2006 that adopting the IFRS for SMEs might not be mandatory.
- The SME SC was of the view that, although the latest draft of the IFRS for SMEs is an improvement on the earlier draft as it allows certain recognition and measurement simplification, it is still too complex for SMEs.
- The SME SC expressed concerns over the options proposed under the latest draft of the IFRS for SMEs for financial assets and financial liabilities, associates and joint ventures and the focus of using fair value alone in arriving at the recoverable amount in the assessment of impairment under the latest draft.

- The proposed IFRS for SME would be discussed at the next World Standard-setters meeting to be held at the end of September and the views and concerns raised by the SME SC would be drawn to the attention of the IASB at that meeting.
- The SME SC agreed to reconsider the treatment of deferred tax under the SME-FRS, in the light of the proposal under the latest draft of the proposed IFRS for SMEs to calculate deferred tax based on timing differences.

Date of Next Meeting

The Committee agreed to hold its next meeting on 11 October 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.

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.

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