Press Release 新聞稿
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(FOR IMMEDIATE RELEASE)

Hong Kong Society of Accountants' announcement following finalisation of the revised International Accounting Standards on financial instruments

The International Accounting Standards Board (IASB) has issued revised versions of its two Standards dealing with financial instruments. IAS 32 deals with the disclosure of financial instruments and their classification as debt or equity. IAS 39 deals with recognition, derecognition, measurement and hedge accounting.

In announcing the release of the revised IAS, the IASB stated that the release of these revised Standards is part of the IASB's initiative to improve fifteen of the Standards that it inherited from its predecessor body (the International Accounting Standards Committee - IASC), in time for them to be used by companies adopting International Accounting Standards for the first time in 2005.

These two accounting standards provide comprehensive guidance on the accounting for financial instruments. The need for such guidance is crucial. Financial instruments are a large part of the assets and liabilities of virtually every company, in particular financial institutions. They also play a central role in the efficient operation of financial markets.

The Standards require companies to disclose their exposure to financial instruments and to account for their effects, in most cases as they happen, rather than allowing problems to be hidden away. In particular, IAS 39 requires derivatives to be reported at their 'fair' or market value, rather than at cost. This overcomes the problem that the cost of a derivative is often nil or immaterial and hence, if derivatives are measured at cost, they are often not included in the balance sheet at all and their success (or otherwise) in reducing risk is not visible. In contrast, measuring derivatives at fair value ensures that their leveraged nature and their success (or otherwise) in reducing risk are reported.

The IASB has conducted extensive due process in revising the financial instruments standards, both before and since the exposure draft proposed revision to the financial instruments standards was issued in mid-2002. The IASB agreed to many changes to the proposals set out in the Exposure Draft. In particular:

- For IAS 39, the Exposure Draft proposed 15 main changes. The IASB confirmed only six of these as proposed, it has added extra guidance to or clarified a further six and it has changed three of its proposals (on derecognition, basis adjustment and reversals of impairment on available for sale assets). It has also made a further seven changes in response to comments received.

- For IAS 32, the Exposure Draft proposed 21 main changes (many on disclosure). The IASB has confirmed 17 of these proposals, rejected one (on using past practice to classify certain derivatives on own shares as either equity or liabilities), and added more guidance on three others. It also made six new changes, primarily adding guidance or disclosure requirements.

There was one issue that emerged from the consultation process for which the IASB decided a further exposure draft was required. The issue was using fair value hedge accounting for a portfolio hedge of interest rate risk (sometimes referred to as 'macro hedging'). The IASB issued a further exposure draft on this one aspect of IAS 39 in August 2003, with a comment deadline of 14 November. In Hong Kong, an invitation to comment on those proposals was issued concurrently. However, in order to help those companies preparing to adopt the revised IAS 32 and IAS 39 in 2005, the IASB decided not to delay the finalisation of the rest of the Standards for this one issue. Accordingly, the IASB is issuing now the revised Standards, except for any changes that it might make for macro hedging. Any further amendments to IAS 39 for macro hedging will be issued early next year.

Further details of the revised IAS, including the full text of the IASB's press release, and summaries of the requirements of the revised IAS 32 and IAS 39, are available on the IASB's website at: http://www.iasb.org.uk, in particular at: http://www.iasb.org.uk/docs/press/2003pr09.pdf.

When the IASB issued the exposure draft in mid-2002, the Hong Kong Society of Accountants' Financial Accounting Standards Committee (FASC) issued concurrently an Invitation to Comment to the IASB's exposure draft. A copy of the exposure draft and the invitation to comment were posted on the HKSA website in July 2002 and can be accessed at: http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/finanacialinstruments.pdf.

In the Invitation to Comment the FASC announced that, "following from the IASB's final approved Standards, the FASC intends to recommend the adoption of new SSAPs (Statements of Standard Accounting Practice), so that the SSAPs maintain conformity with the IASB's standards".

Mr. Roger Best, currently FASC Chairman and recently elected HKSA President, commented, "Convergence of Hong Kong's financial reporting requirements with International Standards is vital for Hong Kong's standing in the international financial community. Primarily in connection with the introduction of IAS into the European Union for periods beginning on or after 1 January 2005, the IASB has achieved a relatively stable platform with regards to its financial instruments standards, the time is right for Hong Kong to adopt requirements that are consistent with international best practice in the crucial area of financial instruments accounting."

Mr. Paul F. Winkelmann, FASC Deputy Chairman, commented, "over its next two meetings the FASC will be considering a proposed recommendation to the HKSA Council to adopt Hong Kong Statements of Standard Accounting Practice (SSAPs) equivalent to IAS 32 and IAS 39. At its meeting next month the Council will consider a recommendation for the SSAPs to apply for financial reporting periods beginning on or after 1 January 2005. For the implementation of these Hong Kong SSAPs, consistent with the earlier Invitation to Comment, the FASC is primarily focused on the transitional provisions applying to the first-time adoption of these new two SSAPs rather than any other substantive difference from the IAS."

"We realise that getting a finalised Hong Kong SSAP published in the market place at the earliest possible time is of prime concern to our constituency. We appreciate that preparers of financial statements that conform to Hong Kong SSAPs will need to assess their 31 December 2003 balance sheet recognition and measurement so that comparative amounts will be available should the new SSAPs apply in 2005. With this in mind, we will seek the HKSA Council's concurrence to release a preliminary final version of the Hong Kong SSAPs during January 2004."

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Issued by the HKSA. The HKSA is the only statutory licensing body of accountants in Hong Kong responsible for the regulation of the accounting profession, with over 21,000 members. The HKSA issues on a regular basis Professional Standards on various aspects of accounting practice, and these are required to be observed by professional accountants.

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