



**Our Ref.: C/FRSC**

**Sent electronically through the IASB Website (www.ifrs.org)**

13 September 2021

Dr Andreas Barckow  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Andreas,

### **IASB Request for Information Third Agenda Consultation**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants in Hong Kong. We are grateful for the opportunity to provide our comments and those of our stakeholders on this Request for Information (RFI).

We welcome the IASB agenda consultation and believe that the consultation will help identify the needs of users and strengthen the transparency of the agenda setting process.

In terms of the financial reporting issues that could be added to the IASB's work plan, we consider that the following three projects should be high priority projects as they help to address four problematic accounting topics relevant in Hong Kong (commodity transactions, cryptocurrencies and related transactions, intangible assets, as well as variable and contingent consideration):

- Develop a Standard to set out accounting requirements for a range of non-financial tangible or intangible assets held solely for investment purposes.
- Undertake a comprehensive review of IAS 38 *Intangible Assets*, including the recognition and measurement requirements.
- Specify the accounting for transactions that involve variable or contingent consideration.

We understand the scope of any project that would be added to the IASB's work plan is yet to be determined. However, the projects prioritised by us may related to each other, e.g. cryptocurrencies and intangible assets. Hence, we suggest that the IASB should seek synergies and consider where projects may be conducted in parallel.

Our detailed comments are provided in the Appendix.

If you have any questions regarding the matters raised in this letter, please contact me ([ceciliakwei@hkiipa.org.hk](mailto:ceciliakwei@hkiipa.org.hk)) or Anthony Wong ([anthonyllwong@hkiipa.org.hk](mailto:anthonyllwong@hkiipa.org.hk)), Associate Director of the Standard Setting Department.

Sincerely,

Cecilia Kwei  
Director, Standard Setting Department

**Work undertaken by HKICPA in forming its views**

The HKICPA:

- (i) issued an Invitation to Comment on the RFI on 31 March 2021 to its members and other stakeholders;
- (ii) sought input from its Working Group for the IASB’s Third Agenda Consultation, which mainly comprised of technical and industry experts;
- (iii) developed its views through its Financial Reporting Standards Committee, having reflected on its stakeholder views. The Committee comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

**Detailed comments on the RFI**

**Strategic direction and balance of the IASB’s activities (refer to RFI Question 1)**

1. The HKICPA and its respondents consider the IASB should leave its current level of focus for each main activity unchanged, given its resources will remain substantially unchanged from 2022 to 2026. The IASB has been able to deliver timely and quality improvements to financial reporting over the years. Hence, increasing the resources allocated to one activity will mean that fewer resources are available for others. In addition, we do not consider that the IASB should undertake any other activities within the current scope of its work.

**Criteria for assessing the priority of financial reporting issues that could be added to the IASB’s work plan (refer to RFI Question 2)**

2. We have the following comments on the criteria used by the IASB and do not propose any additional criteria.

	<b>IASB proposed criteria</b>	<b>Comments</b>
#1	The importance of the matter to investors	The IASB should consider the importance of the matter to ‘stakeholders’ instead of only to ‘investors’, given that investors are not the sole stakeholders of financial reports.
#2	Whether there is any deficiency in the way companies report the type of transaction or activity in financial reports	‘Deficiency’ may inappropriately imply ‘wrongdoing’, and the IASB can hence consider to use the term ‘significant divergence’ instead.
#3	The potential project’s interaction with other projects on the work plan	The IASB should clarify the consequences to priority if the potential project has more interaction with other projects on the work plan. For example, does more interaction with other projects mean a higher or lower priority will be set?  However, we suggest that the IASB should be cautious of repeatedly deferring important issues in financial reporting on the basis that the issue has interaction with other projects on the IASB’s work plan. This sort of rationale has the potential to result in significant issues being unaddressed for many years.

**Financial reporting issues that could be added to the IASB's work plan (refer to RFI Question 3)**

3. As mentioned in our cover letter, we categorise the following three projects as high priority as on an overall basis they are related to four accounting topics relevant in Hong Kong. Our comments on each of the three high priority projects are summarised below.

- **Develop a Standard to set out accounting requirements for a range of non-financial tangible or intangible assets held solely for investment purposes (*Commodity transactions & Cryptocurrencies and related transactions*)**

Our respondents generally noted commodity transactions, in particular commodity loans, have been quite pervasive in Hong Kong. Application questions are arising and diversity in practice is observed (e.g. some companies account for commodity loan transactions that involve gold using IFRS 9 *Financial Instruments*; IAS 2 *Inventories*; IFRS 15 *Revenue from Contracts with Customers*; or the *Conceptual Framework for Financial Reporting*) as no specific accounting standard governs such transactions. Hence there is a need to develop requirements for common types of commodity transactions—for example, commodity loans. Furthermore, it is worth setting out the range of non-financial tangible or intangible assets to which the proposed commodity loan requirements would apply.

In addition, we believe that accounting for cryptocurrencies under IAS 2 or IAS 38 may not provide relevant information when these items are held for speculative or investment purposes. Given the increasing prevalence of cryptocurrency transactions we believe there is a need for more robust measurement, recognition as well as presentation and disclosure requirements that faithfully represent the underlying transactions.

Alternatively, the IASB may consider amending the scope of IFRS 9 to include cryptocurrencies. However, existing standards like IFRS 9 were not written to specifically address crypto-related issues. Hence, the application of IFRS 9 to cryptocurrencies may only be a short-term fix.

Hence, we consider that a Standard to set out accounting requirements for a range of non-financial tangible or intangible assets held solely for investment purposes is needed.

- **Undertake a comprehensive review of IAS 38, including the recognition and measurement requirements (*Intangible assets*)**

IAS 38 was published around two decades ago and does not adequately address common transactions encountered in this knowledge-based era with frequent and material transactions involving information technologies and intellectual properties.

As such, we believe a fundamental review of IAS 38 is warranted in terms of:

- (i) scope, e.g. how to cope with new types of intangibles both unrecognized (e.g. internally generated intangibles) and recognized (e.g. crypto and polluting permits),
- (ii) recognition and measurement, and
- (iii) disclosure requirements.

In particular, similar to the concerns raised in paragraphs B49 and B50 of the RFI, some of our respondents believe that the IASB should revisit the reasons for the difference in recognition criteria for separately acquired intangible assets and internally generated intangible assets.

Quite a few of our local preparers in the pharmaceutical industry have expressed serious concern with capitalising separately acquired in-process research and development (IPR&D) projects in accordance with IAS 38.25 when the probability of success of such

projects is very low on the date of acquisition. They challenge the basis for the different treatment between separately acquired intangible assets and those that are internally developed which are subject to more stringent capitalisation requirements per IAS 38.57.

Furthermore, these stakeholders believe that capitalising IPR&D on the date of acquisition while expensing subsequent internally incurred R&D costs (which arguably increases the probability of success of the project as it progresses) is counter-intuitive and does not provide useful information to the users of the financial statements. Such accounting may also give rise to structuring opportunities, particularly with related parties where an entity may outsource R&D activities to related parties rather than develop them in-house in order to capitalise such costs despite the project's having a low probability of success.

This issue is becoming more prevalent in the new technology industries (TMT, pharma, fintech) and we recommend the IASB consider this as part of the comprehensive review of IAS 38.

In addition, some stakeholders have requested an introduction of a requirement similar to that in paragraph 68A of IAS 16 *Property, Plant and Equipment* during the consultation of the *Tentative Agenda Decision - Player Transfer Payments (IAS 38)*. Such an amendment would provide an exception to the general derecognition requirements in IAS 38.113 for the disposal of intangible assets that, after being used by the entity for a period of time, are sold to customers in the ordinary course of business. Instead, entities would transfer those intangible assets to inventory when they are held for sale in the ordinary course of business—the entity would then recognise any proceeds received on that sale as revenue applying IFRS 15.

- **Specify the accounting for transactions that involve variable or contingent consideration (*Variable and contingent consideration*)**

This has been a growing issue for quite some time (e.g. transactions involving performance linked purchase prices for assets) which currently lacks clear requirements. Our respondents observed diversity in practice as identified in paragraph B81 of the RFI (e.g. initial accounting—when and at what amount, subsequent accounting—capitalised or charged/credited to profit or loss). We believe that targeted changes to the relevant Standards would be a quick fix.

4. In addition, we suggest the IASB consider the following four medium or small-sized potential projects as lower priority items.

- **Undertake a comprehensive review of the accounting requirements for government grants**

Government grants are common in certain industries in Hong Kong, especially due to COVID-19. Our respondents observed diversity in practice in terms of the treatment for the items as identified in paragraph B40 of the RFI (e.g. recognised as deferred income or deducted to arrive the carrying amount of the asset; presented as income or deducted from the related expense). In addition, guidance could be developed on how to differentiate whether the government is acting as the government, or more as a shareholder or customer.

- **Undertake a targeted project to improve aspects of the statement of cash flows, including information about non-cash movements, such as arising from supply chain financing arrangements**

There is a lack of guidance on certain areas as identified in paragraph B76 of the RFI, e.g. non-cash movements arising from supply chain financing arrangements (reverse



factoring – which may be addressed in the upcoming IASB’s exposure draft on Supplier Finance Arrangements). More specific disclosure requirements would improve consistent application.

- **Undertake a targeted project to improve, clarify or simplify aspects of IAS 23 *Borrowing Costs***

We generally agree with the problems noted in paragraph B6 of the RFI. In particular, it would be useful to clarify IAS 23.6(e) regarding which exchange differences arising from foreign currency borrowings are eligible for capitalisation. In addition, it is often difficult to determine the amount of borrowing costs that is eligible for capitalisation and the appropriate capitalisation rate when a qualifying asset is funded from general borrowings. Therefore, further guidance in this area would be useful.

- **Clarify what transition disclosures are required in interim financial statements in the first year of applying a new Standard or major amendment**

Our respondents observed diversity in practice due to lack of guidance in this area.

~ End ~