



Minutes of the 235th meeting of the Financial Reporting Standards Committee held on Tuesday, 28 March 2017 at 8:30 a.m. in the Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

Members present: Ms. Shelley So (Chairman), PricewaterhouseCoopers  
Mr. Ernest Lee (Deputy Chairman)  
Mr. James Fawls, HSBC  
Ms. Candy Fong, Foremost Advisers Ltd  
Ms. Kelly Kong, Jardine Matheson & Co., Limited  
Ms. Eros Lau, Deloitte Touche Tohmatsu (Dial-in)  
Mr. Joe Ng, Ernest & Young  
Ms. Susanna Lau, Securities and Futures Commission  
(attend on behalf of Ms. Pauline Ng)  
Mr. Steve Ong, Stock Exchange of Hong Kong Limited (Dial-in)  
Mr. Gary Poon, Poon & Co.  
Mr. Simon Riley, BDO Limited  
Ms. Sanel Tomlinson, KPMG  
Ms. Florence Wong, Financial Reporting Council  
Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance: Ms. Christina Ng, Director, Standard Setting  
Ms. Winnie Chan, Associate Director, Standard Setting  
Ms. Kam Leung, Associate Director, Standard Setting  
Ms. Eky Liu, Associate Director, Standard Setting  
Mr. Anthony Wong, Associate Director, Standard Setting  
Ms. Daisy Xia, Manager, Standard Setting  
Ms. Iris Lin, Associate Manager, Standard Setting

Apologies: Mr. Gary Stevenson, RSM Hong Kong

	<u>Action</u>
<p><b>1. <u>Minutes, work program and liaison log</u></b></p> <p>A few comments were noted on the minutes of the 234th meeting. Revised minutes will be circulated and approved out-of-session.</p> <p>The Committee noted the developments outlined in the FRSC and SSD work program and liaison log.</p>	SSD
<p><b>2. <u>Strategic planning</u></b></p> <p>The Committee noted the progress made and agreed with the proposed 2017-2019 plans, including a list of high priority projects.</p> <p>The Committee also noted it will receive regular updates at future meetings, particularly high priority projects, during the project life cycle, in line with its strategic plan. This includes updates before consultation documents are issued by the IASB.</p>	SSD
<p><b>3. <u>HKFRS 15 Revenue from Contracts with Customers</u></b></p> <p><b>(a) Applying HKFRS 15 to not-for-profit private members clubs</b></p>	

As requested at its last meeting, the Committee considered a fact pattern developed by the staff to determine whether contracts with members of a private members club, run by members for members, relate to a customer-vendor relationship. Some key features of the fact pattern are as follows:

- A Sporting Club offers an ordinary membership and a sporting subscription.
- An ordinary member has a right to vote at general meetings, may be eligible to participate in the governance of the club, and retains membership in accordance with the club's rules. Ordinary members pay a higher one-off joining fee and a monthly subscription fee.
- A Sporting member represents the club in sporting competitions on a regular basis, has access to the club and its facilities for three years only and is eligible for nomination to become an ordinary member. Sporting members have no right to vote or participate in meetings or in the governance of the club unless they become an ordinary member. Sporting members pay a lower one-off joining fee and monthly fee in the same amount as an ordinary member.
- All paid fees are not refundable.
- Ordinary members and Sporting members enjoy the same privileges in using club facilities.

The Committee has no concerns about applying HKFRS 15 to monthly subscription fees but expressed different views on applying HKFRS 15 to club entrance fees. Six FRSC members considered that membership entrance fees should be accounted for under HKFRS 15 as the entrance fees could be payment for goods and services, other than the provision of access to the club. Five members considered that membership entrance fees could have multiple elements – for example, the element that pertains to goods and services under HKFRS 15 should be accounted for under HKFRS 15 and other elements should be accounted for under other applicable HKFRS. Three members abstained and one member was absent.

The Committee generally agreed that judgment will need to be applied based on the specific facts and circumstances of each club when determining whether a transaction is within the scope of HKFRS 15 (i.e. it is not an accounting policy choice). Entities should disclose in their financial statements the rationale and critical accounting judgment applied in forming their view.

#### **(b) Meeting with REDA**

The Committee noted representatives of FRSC and staff met with representatives of the Real Estate Developers Association of Hong Kong (REDA) in March 2017. The meeting discussed HKFRS 15's principles on the transfer of control of goods or services from an entity to a customer, and the point at which control could have transferred.

The Committee noted REDA's thought process of applying the principles to the sale of completed properties and the sale of properties under construction. The Committee requested that the Revenue Project Advisory Panel considers the application of HKFRS 15's principles to the sale of completed properties and whether there would be any inconsistent outcome when applying HKFRS 15 paragraphs 33 and 38 in the context of a sale of properties under construction.

SSD &  
Revenue  
Project  
Advisory  
Panel

5. **Business Combinations Under Common Control (BCUCC)**

The Committee noted SSD's progress on the BCUCC Project, in particular, the desktop review on common control combinations (phase 1) and the Request for Information (RFI) on the Post-implementation Review (PIR) of Accounting Guideline 5 *Merger Accounting for common Control Combinations* (phase 2). No decisions were requested from the Committee.

On phase 1, the Committee noted that SSD has completed its desktop review of common control combinations that applied AG 5 or a predecessor method. The Committee also noted that a desktop review of common control combinations that applied the acquisition method under HKFRS 3 *Business Combinations* is underway. SSD will report on progress at a future meeting.

On phase 2, the Committee noted that a range of stakeholders responded to the RFI, namely preparers, practitioners, investors and an academic. The Committee also noted the detailed feedback received on RFI.

The Committee agreed that the SSD should continue its desktop review and in-depth analysis of the RFI, including what potential next steps the Committee could take on the PIR.

6. **Financial Instruments**

**(a) Consider upcoming IASB narrow scope proposed amendments to IFRS 9: Symmetric Prepayment Options**

The Committee noted that the IASB aims to issue a 30-day comment period Exposure Draft (ED) with a proposed narrow scope amendment to IFRS 9. The Committee also noted SSD's outreach and stakeholders' preliminary views on the IASB's tentative proposal.

The Committee agreed with the staff proposal to respond to the IASB ED. An invitation to comment will be issued when the IASB ED is published and draft submission will be presented at the next FRSC meeting.

**(b) Update on Financial Instruments with Characteristics of Equity research project**

The Committee noted the progress made on the research project, in particular, that SSD has completed its desktop review of common claims (listed and non-listed), and SSD's plans to interview targeted stakeholders and to apply the IASB's tentative classification of debt and equity to common claims in Hong Kong.

7. **IASB Exposure Draft ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle**

The Committee considered the staff proposal and agreed not to comment on ED/2017/1 as the proposed amendments are unlikely to have a significant impact to stakeholders in Hong Kong, and the written comments it received from stakeholders have not raised any concerns on the proposals.

Due to the non-urgent nature of the remainder of the agenda, the Committee decided to carry forward the remaining items on IASB proposed amendments to IFRS 8 *Operating Segments*, IFASS meeting in Taipei and IVSC insights meeting to the next FRSC meeting. The meeting closed at 11:45 a.m.

SHELLEY SO  
CHAIR

28 March 2017