



Minutes of the 241st meeting of the Financial Reporting Standards Committee held on Tuesday, 27 February 2018 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), Deloitte Touche Tohmatsu Mr. Ramil Clemena, BlackRock Asset Management North Asia Ltd Mr. James Fawls, HSBC Ms. Candy Fong, Foremost Advisers Ltd Ms. Cynthia Leung, Financial Reporting Council Mr. Joe Ng, Ernst & Young Mr. Steve Ong, Stock Exchange of Hong Kong Limited (Dial-in) Mr. Simon Riley, BDO Limited Mr. Gary Stevenson, RSM Hong Kong Ms. Sanel Tomlinson, KPMG 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. Katherine 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
Apologies:	Ms. Kelly Kong, Jardine Matheson & Co., Limited Ms. Susanna Lau, Securities and Futures Commission Mr. Gary Poon, Poon & Co.

Action

**1. Welcome and Introductions**

The Chairman welcomed Mr. Ramil Clemena and Ms. Cynthia Leung as new members of the Committee.

The Committee noted the general confidentiality rules in relation to minutes and agenda papers, its terms of reference, and 2018 meeting dates.

**2. Minutes and stakeholder liaison log**

The Committee provided comments on the 240th meeting minutes and noted SSD's stakeholder liaison log.

**3. FRSC Strategic Planning**

The Committee noted the progress made against its 3-year strategic plan (2017-2019), in particular, on high priority consultation documents, projects and implementation/application issues, including performing more outreach and research activities. The Committee thanked SSD for the work done in 2017 and its efforts made in increasing the Institute's standard-setting profile in Hong Kong and internationally.

The Committee also noted SSD's plans to revamp the Standard Setting webpages to improve the transparency for how stakeholders can contact/raise issues with the FRSC—the Institute's Council has approved a budget and plans for upgrading the Institute website in 2018.

In addition, the Committee reaffirmed its strategic plans to

- respond to high priority projects throughout the project life cycle and conduct research and outreach activities to inform its views;
- understand, facilitate and address issues arising from applying/implementing HKFRS and SME-FRS;
- enhance stakeholder relations and engagement, and international representation, with particular focus on high priority projects.

The Committee agreed with the staff proposed direction for 2018-2019 for the following high priority projects.

- Business Combinations Under Common Control
- Better Communication in Financial Reporting
- Financial Instruments with Characteristics of Equity
- Goodwill and Impairment
- Conceptual Framework
- Accounting Policies and Estimates
- IFRS/HKFRS 9 *Financial Instruments*
- PIR IFRS/HKFRS 13 *Fair Value Measurements*
- IFRS/HKFRS 15 *Revenue from Contracts with Customers*
- IFRS/HKFRS 16 *Leases*
- IFRS/HKFRS 17 *Insurance Contracts*
- SME-FRF/FRS

The Committee also considered and agreed to add the following two projects to its work programme.

(i) Cryptocurrencies

SSD  
SSD has received technical enquiries about the accounting for cryptocurrencies in recent months. National standard-setters and the IASB have also discussed this topic. At this stage, staff will monitor the discussions globally and report back to the Committee.

(ii) The new two-tiered profits tax regime and the implications (if any) on financial reporting

On 29 December 2017, the 'Profits Tax Bill' was proposed and the draft bill was discussed at the Legislative Council on 10 January 2018. The Profits Tax Bill introduces a two-tiered profits tax rate regime, which reduces the overall taxes for SMEs.

Taxation  
Advisory  
Panel / SSD  
An immediate issue to consider is at which point in time can a Bill be considered substantively enacted. SSD proposed to discuss with the FRSC Taxation Advisory Panel and will update the Committee at the next FRSC meeting.

#### **4. IFRIC Due Process**

Further to its December meeting, the Committee considered the comments made by IASB representatives at its meeting with IASB in Hong Kong in January and decided not to write to the IASB. In particular, the Committee agreed the IASB had followed its due process for issuing amendments to Standards and that any further recommendations to

improve the IFRIC due process could be made to the IASB when the Committee responds to the IASB's Exposure Draft on Accounting Policy Changes which is expected to be issued in March 2018. Some members proposed that there should be a standing item to discuss IFRIC tentative agenda decisions at future FRSC meetings.

Details of the IFRIC Due Process issue and the discussion with the IASB representatives on this issue are available in the minutes of the December 2017 FRSC meeting.

## **5. Application issue: Accounting for transfers of utility facilities**

A FRSC member raised an application issue on the accounting for transfers of utility facilities by State-owned Enterprises (SOEs) in PRC that report under HKFRS/IFRS.

In 2016, the Ministry of Finance (MoF) issued a directive that mandates SOEs to transfer utility facilities related to the supply of water, electricity and heating, and property management services, to other SOEs that provide utility and other services as their core businesses (e.g. water companies, utility companies, etc.) at nil consideration.

The MoF also requires the SOEs to repair or upgrade the facilities upon the transfer of the assets. The SOEs are required to bear 20% of the total upgrading cost, while the controlling shareholder of the SOEs and the government bear 30% and 50% of the upgrading costs, respectively.

The SOEs are required to follow the guidance issued by the MOF in 2005 to account for the transfers of assets as distribution to shareholders. However, the MoF did not issue any specific guidance in relation to the accounting for the upgrading costs.

The Committee expressed mixed views on the accounting treatment on both the transfer of facilities and the upgrading costs under HKFRS/IFRS and considered that the accounting would depend on the facts and circumstances of each transfer. In particular, if the transaction is a transaction with owners in the capacity of owners, Committee members agreed with the accounting as distribution to shareholders. Otherwise, the accounting should be consistent with the disposals of assets under IAS/HKAS16 *Property, Plant and Equipment*.

[On 4 June 2018, the text 'in the capacity of owners' were added to this minutes (refer to second sentence of last paragraph, item 5).]

## **6. HKFRS 16 Leases implementation issues**

The Committee received an update on meetings held by SSD and the Leases Project Advisory Panel (the Panel) between May to October 2017. The main aim of these Panel meetings was to consider whether or not government rents and rates paid by tenants of leased properties should be included in the measurement of lease liability under HKFRS 16 *Leases*.

The Committee considered the matter based on the following specific facts and circumstances in Hong Kong:

- (i) In accordance with Hong Kong land policy and legal provisions, government rent is levied on property owners for land leases from the Government. Depending on the type of land lease under which the property is held, government rent charged on a property may be

- a fixed amount or may vary with changes in the rateable value of the property.
- (ii) Rates, a different charge from government rents, are a tax on properties for which public services are provided to residents/tenants, such as street lighting and police patrol. Rates are calculated based on a percentage of a property's rateable value.
  - (iii) The rateable value of a property is an estimate of its annual rental value at a designated date.
  - (iv) Both government rents and rates can be borne by tenants if they are passed on by the land lease holder.

The Committee appreciated the following challenges to conclude this matter:

- (i) HKFRS 16 requires lessees to recognize the lease component separately from the non-lease component (HKFRS 16.12). The lease component represents payments for the right to use an underlying asset for a period of time. Consequently, a lessee should consider:
  - The substance of payments for government rents and rates in the context of HKFRS 16; and
  - Whether government rents and rates meet the conditions of a lease component.
- (ii) HKFRS 16 requires variable lease payments that depend on an index or rate to be included in the measurement of a lease component (HKFRS 16.27). If government rents and rates are considered a lease component, the lessee should consider whether government rents and rates are a type of variable payment based on index or rate. Specifically, lessees should evaluate whether payments that vary with changes in the rateable value of the property (i.e. the basis of calculating government rents and rates) should be treated as variable payments based on index/rate or variable payments based on future performance. However, there is no specific guidance in HKFRS 16 that address this issue.

The Committee requested the Panel to address the above challenges and agreed that SSD should survey other national standard-setters around the region, in particular, whether they have similar issues. Staff will present their analysis and the Panel's recommendations at a future meeting.

Leases  
Advisory  
Panel / SSD

## **7. HKFRS 17 Insurance Contracts**

The Committee received an update on the February 6 meeting of the IASB's Transition Resource Group.

In relation to the Hong Kong Insurance Implementation Support Group (HKIISG), the Committee agreed that:

- (i) a small pool of FRSC members will chair the meetings;
- (ii) observer seats at the meetings will be available to those who need to stay in touch with HKFRS 17 implementation; and
- (iii) the following materials will be made available on the Institute's website:
  - meeting log of all submissions received by HKIISG;
  - all original submissions that meet the HKIISG criteria for submission (without the name of the submitting company/organisation); and
  - meeting summaries of HKIISG discussions.

**8. Other Business**

Further to its December FRSC meeting, FRSC member Steve Ong reported that a reporting entity is permitted to apply new HKFRSs in an Accountant's Report for IPOs to the extent allowed by HKFRSs. He also commented that the Hong Kong Standard on Investment Circular Reporting Panel is working on an FAQ to clarify this and will report back to the Committee at a future meeting.

SSD/  
Ong

Due to the non-urgent nature of the IFRS 13 *Fair Value Measurement* update, the Committee decided to discuss it at its next meeting. The meeting closed at 11:50 a.m.

SHELLEY SO  
CHAIR

8 March 2018