



Minutes of the 242nd meeting of the Financial Reporting Standards Committee held on Tuesday, 10 April 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  
Ms. Candy Fong, Foremost Advisers Ltd  
Ms. Susanna Lau, Securities and Futures Commission  
Ms. Cynthia Leung, Financial Reporting Council  
Mr. Joe Ng, Ernst & Young  
Mr. Steve Ong, Stock Exchange of Hong Kong Limited (Dial-in)  
Mr. Gary Poon, Poon & Co.  
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

Apologies: Mr. James Fawls, HSBC  
Ms. Kelly Kong, Jardine Matheson & Co., Limited

Action

**1. Minutes, work program and liaison log**

The Committee approved and the Chairman signed the minutes of the 241st meeting.

The Committee noted the developments outlined in the FRSC and SSD work program and liaison log, in particular, that SSD and a member of the IASB's IFRS Taxonomy Consultative Group co-hosted a roundtable with users of financial reports themed "Better Disclosure". The roundtable included discussions on what level of aggregation/disaggregation is appropriate, what is considered a material item, and what information regarding group reorganisations is useful.

Further to its February meeting, the Committee also noted that an FAQ regarding 'the application of new accounting standards in an Accountant's Report for IPOs' is underway.

**2. Accounting for Income Taxes**

The Committee noted that the Legislative Council passed a two-tiered profits tax regime [the 'Inland Revenue (Amendment) (No.7) Bill 2017' (Bill)] on 21 March 2018 after its Third Reading. The Hong Kong Chief Executive signed the Bill on 28 March 2018. The Bill applies to both corporations and unincorporated businesses commencing from the year of assessment 2018/19.

HKAS 12 *Income Tax* requires entities to measure their current and deferred tax assets/liabilities at the amount expected to be recovered from/paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

In light of the new tax regime, the Committee considered SSD's analysis in relation to when tax rates in Hong Kong are 'substantively enacted' and 'enacted'. Based on Hong Kong Basic Law and legislative procedures, the Committee agreed that:

- a tax rate is substantively enacted when the Legislative Council approves the proposed Bill after its Third Reading, as the procedures after Third Reading appear to be formality.
- a tax rate is enacted when a proposed Bill is signed by the Hong Kong Chief Executive.

The impact of the two-tiered profits tax rates on the SMEs' financial statements may be significant and the calculation of deferred tax may be complicated under a two-tiered profits tax. The Committee considered publishing FAQs on this development and will discuss them at a future meeting. The Committee also recommended that the Institute's Auditing and Assurance Standards Committee considers whether there are particular auditing implications as a result of the two-tiered profits tax regime.

### **3. Definition of a business**

The Committee noted that the IASB tentatively decided at its October 2017 meeting to clarify the description of the optional and determinative screening test as follows:

- An entity is permitted, but not required, to carry out the screening test;
- If the screening test identifies an asset purchase, no further assessment is needed; and
- If the screening test does not identify an asset purchase, the entity must carry out a further assessment. If the entity elected not to apply the screening test, it must proceed to carry out the same further assessment.

The IASB tentatively decided to proceed with this screening test because they consider that it would best meet the aim of reducing cost and complexity of determining a business.

The Committee continues to believe that the tentative screening test as discussed by the IASB would create structuring opportunities and diminish the comparability of financial statements, and thus, result in a higher cost to financial reporting which would outweigh the benefits of simplifying the determination of a business test. The Committee considered writing to the IASB again to express its support for tentatively approving all other amendments to IFRS 3 *Business Combinations*, except the tentative amendments relating to the screening test as the Committee believed those amendments would not lead to significant improvement.

SSD

SSD also suggested speaking directly with the IASB Vice-chair Sue Lloyd and IASB Technical Director Peter Clark.

### **4. IFRS 13 Fair Value Measurement**

The Committee received an update on the IASB's Post-implementation Review (PIR) of IFRS 13 project and noted that the Board will:

- feed the PIR findings regarding the usefulness of disclosures into the

work on Better Communications in Financial Reporting, in particular, the projects on Principles of Disclosure and Primary Financial Statements;

- continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
- conduct no other follow-up activities as a result of findings from the PIR, for example not to perform any work in the area of prioritising the unit of account or Level 1 inputs because the costs of such work would exceed its benefits.

#### 5. **Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME Standard)**

Further to its December 2017 meeting, the Committee noted the findings of SSD's survey to member jurisdictions of the Asia-Oceania Standard-Setters Group (AOSSG). The survey requested for information on the jurisdiction's own standard for SMEs. Considering all the findings on SSD's outreach activities during 2017, the Committee agreed to conduct a formal post-implementation review of the SME Standard by issuing a Request for Information for public consultation.

The Committee discussed whether to incorporate new accounting requirements under HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases* to the SME Standard. The Committee decided it should first observe the implementation experience of IFRS/HKFRS adopters before considering whether to introduce the new requirements into the SME Standard, which is intended to be a simplified reporting standard for simple and straightforward entities.

The Committee noted that HKICPA's due process for the SME Standard is not covered by the *Preface to Hong Kong Financial Reporting Standards*. The Committee is of the view that the due process for HKFRS Standards is effective and robust. The Committee recommended SSD to consider aligning the due processes of HKFRS and the SME Standard and, in particular, consider what could be the trigger point(s) for amending the SME Standard. SSD will bring back a paper on this subject at a future FRSC meeting.

SSD

#### 6. **Business Combinations under Common Control (BCUCC)**

Further to its July 2017 meeting, the Committee considered and endorsed for publishing the revised Feedback Statement on the HKICPA Post-implementation Review of AG 5 *Merger Accounting for Common Control Combinations*.

In addition, the Committee received and considered the following updates on SSD's BCUCC project:

- Research findings on the accounting and fact patterns of BCUCC that were reported by Hong Kong listed companies during the years 2013 to 2015;
- Observations from SSD's outreach activities on what information about a BCUCC investors need to make investment decisions;
- Discussion outcomes and findings from SSD's presentations to and meetings with the AOSSG, International Forum of Accounting Standard-Setters and IASB;

- Tentative decisions of the IASB's own BCUCC project and SSD's preliminary views; and
- A detailed BCUCC project plan for 2018.

SSD

The Committee agreed with the SSD proposed directions on the project. A few members commented on the IASB tentative decisions in relation to the scope of the project and the starting point for developing the accounting methods. SSD will reflect those comments to the IASB staff.

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

The Committee noted a late application dated 14 March for membership of the Hong Kong Insurance Implementation Support Group (HKIISG) and decided not to consider the late application as the group was already formed and is working as intended.

The Committee noted developments from the HKIISG meetings.

The Committee also noted other developments:

- SSD prepared a planning guide aimed at helping smaller insurers implement HKFRS 17. HKICPA's Insurance Regulatory Advisory Panel provided comments on the document. FRSC will be requested to provide fatal flaw comments on the document.
- IRAP and SSD will meet the Insurance Authority (IA) on 5 June to discuss possible ways where HKFRS 17 reporting requirements could support IA's new risk-based capital reporting requirements.

The Committee also noted that SSD requested to discuss the possible tax impact of HKFRS 17 with the Inland Revenue Department (IRD). IRD requested for more time to study the details and tax implications of HKFRS 17 and proposed to meet with SSD at its 2019 annual meeting with HKICPA.

The Committee also noted that the European Commission has commenced its IFRS 17 endorsement process.

[Post-meeting notes: On 7 May 2018, the [planning guide](#) was published and promoted through the Institute's communication channels, and also to stakeholders who had opted to receive notifications from the Institute regarding HKFRS 17.]

There being no further business, the meeting closed at 11:30 a.m.

SHELLEY SO  
CHAIR

31 May 2018