



17 July 2020

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON EXPOSURE DRAFT
Proposed Amendments to Accounting Guideline 5
Merger Accounting for Common Control Combinations (AG 5)

Comments to be received by 16 October 2020

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on the Exposure Draft *Proposed Amendments to the Accounting Guideline 5 Merger Accounting for Common Control Combinations*. The Exposure Draft is available on the Institute's website: <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

In August 2016, the FRSC of the Institute issued a [Request for Information](#) to conduct a post-implementation review (PIR) of AG 5. The comment period closed in December 2016.

The aim of the PIR was to proactively seek feedback from constituents on matters raised by the FRSC's Business Combinations and Reporting Entity Advisory Panel, comprising preparers, technical experts from accounting firms, and representatives of regulatory bodies in Hong Kong. The PIR also asked for feedback on and assessed the benefits, challenges, and other effects of applying AG 5.

The PIR [Feedback Statement](#), issued in August 2018, provides an overview of the Institute's PIR process and a summary of the feedback received from constituents and the key issues identified.

Based on the feedback received, the FRSC:

- (a) noted that addressing certain constituents' comments would require amendments to the principles and accounting requirements in AG 5. However, the FRSC noted that the International Accounting Standards Board (IASB) is currently discussing the accounting approach for transactions within the scope of its Business Combination Under Common Control (BCUCC) project. The FRSC considered the importance of responding to the feedback versus the burden and confusion for preparers and users of financial statements in Hong Kong of making two significant sets of changes to the accounting for common control combinations within a short timeframe. On balance, the FRSC proposes not to amend the principles and accounting requirements in AG 5 now that could be affected by the outcome of the IASB BCUCC's project; and
- (b) proposes the following limited amendments to AG 5 to assist the Institute's members in applying AG 5 during the interim period, before the IASB's project is finalised:
 - Updating the terminologies and references in AG 5 to align with existing HKFRS Standards;
 - Providing clearer rationale in paragraph 5 of AG 5;
 - Adding disclosure requirements to paragraph 19 of AG 5; and
 - Clarifying the accounting for change in non-controlling interests in the existing example in AG 5.



The FRSC invites your comments on the proposals as set out in the Exposure Draft and also whether any other amendments to AG 5 should be considered by the Institute by **16 October 2020**. Comments are most helpful if they:

- (a) indicate the specific paragraph(s) in the Exposure Draft to which they relate;
- (b) contain a clear rationale; and
- (c) include any alternative the FRSC should consider, if applicable.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.