



Minutes of the 248th meeting of the Financial Reporting Standards Committee held on Tuesday, 26 February 2019 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: Mr. Ernest Lee (Chairman), Deloitte Touche Tohmatsu
Mr. Gary Stevenson (Deputy Chairman), RSM Hong Kong
Mr. Ramil Clemena, BlackRock Asset Management North Asia Ltd
Ms. Candy Fong, Foremost Advisers Ltd
Ms. Cynthia Leung, Financial Reporting Council
Mr. Joe Ng, Ernst & Young
Ms. Monica Ng, PricewaterhouseCoopers
Mr. Ghee Peh, Jefferies
Mr. Gary Poon, Poon & Co.*
Mr. Simon Riley, BDO Limited*
Mr. Jim Tang, KPMG
Mr. Guochang Zhang, The University of Hong Kong
*attended item 1 to item 4 only

Guests present: For item 5 only, the following representatives from the Accounting Standards Board of Japan
Mr. Atsushi Kogasaka, Vice Chair
Mr. Yasunobu Kawanishi, Board Member
Mr. Kenji Arai, Project Manager
Ms. Nami Yamaguchi, Project Manager

For item 6 only
Ms. Shelley So, (Immediate Past FRSC Chairman),
PricewaterhouseCoopers
Ms. Sanel Tomlinson, (Immediate Past FRSC member), KPMG

Staff in attendance: Ms. Christina Ng, Director, Standard Setting
Ms. Michelle Fisher, Deputy Director, Standard Setting
Ms. Carmen Ho, Associate Director, Standard Setting
Ms. Joni Kan, 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
Ms. Susanna Lau, Securities and Futures Commission

Action

1. Welcome and Introductions

The Chairman welcomed Ms. Monica Ng, Mr. Ghee Peh and Mr. Jim Tang 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 2019 meeting dates.

The Committee also noted the importance of attendance in person at meetings and that attendance via dial-in would only be expected in rare circumstances, for example, when a member is out of Hong Kong and

wishes to join the discussion on a particular topic.

2. **Minutes and stakeholder liaison log**

The Committee agreed to approve the minutes of the 247th meeting and noted SSD's stakeholder liaison log.

3. **Revenue**

Update on recognition of IPO sponsor fee income when applying HKFRS 15

At its December 2018 meeting, the Committee noted that difficulties had arisen in practice in applying HKFRS 15 *Revenue from Contracts with Customers* to the recognition of IPO sponsor fee income. At that meeting the Committee supported the SSD proposal to publish educational material to explain the concepts of revenue recognition under HKFRS 15 when applied to IPO sponsor fees.

As recommended by the Committee at its December 2018 meeting, the Revenue Recognition Advisory Panel (RRAP) met in January to discuss this issue in more detail, with input from the Securities Regulatory Advisory Panel (SRAP) on a common IPO sponsor fact pattern.

Based on the common fact pattern discussed by the RRAP and the SRAP, the SSD developed Q&As (FAQ) on applying HKFRS 15 to the recognition of IPO sponsor fee income. The FAQ was circulated to Committee members for approval and issued on 21 February 2019.

The Committee noted that in view of the urgency to issue the FAQ:

- SSD had focussed on providing relevant references to the requirements of HKFRS 15 to enhance understanding of the new revenue concepts, rather than providing specific views on how revenue would be recognised for the given fact pattern; and
- the FAQ was circulated to the Committee for comment and approval by email, rather than brought for further deliberations at this meeting.

Some Committee members observed that the FAQ had generally been well received. However, as the FAQ only provides high-level guidance, Committee members agreed with SSD to issue further guidance to elaborate some of the areas in the FAQ, including estimating the variable consideration and when such an estimate needs to be constrained, using additional illustrative examples. The Committee agreed that the content of this further guidance should be discussed by the RRAP and, following due process, may require discussion with the IASB staff.

SSD &
Panel

One Committee member also observed that practitioners have concerns that the criteria in HKFRS 15.35(c) appears to be overly stringent, for example, in the case when a sponsor has met key milestones and has received non-refundable payments for those milestones, but it cannot recognise any revenue until completion of the contract because it does not have the right to payment for performance completed to date at all times throughout the duration of the contract. The Committee noted the practitioners' concerns and considered that education on the rationale for HKFRS15.35(c) is necessary.

SSD

IFRS Interpretations Committee (IC) tentative agenda decision (TAD) on over time transfer of constructed goods

The Committee noted that, in November 2018, the IC discussed a request about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development. In the request, the developer recognises revenue for sales of individual units

over time applying IFRS 15. The IC concluded that, in the specific fact pattern provided in the request, the developer does not have a qualifying asset and does not capitalise borrowing costs. The IC concluded that IAS 23 *Borrowing Costs* provides an adequate basis for an entity to determine whether to capitalise borrowing costs in the fact pattern provided and tentatively decided not to add this matter to its standard-setting agenda. The IC encouraged interested parties to submit comments on the TAD.

Following the IC TAD, SSD was made aware of questions from property developers in Mainland China listed on the Hong Kong Stock Exchange as to whether the TAD might impact the current practice of capitalising borrowing costs on land use rights (and the associated building under development) in a similar fact pattern to the IC request, except that:

- (a) the borrowings are used as funding for both acquisition of the land use rights and constructing the building; and
- (b) the contractual terms are only finalised between the entity and the individual customers when the payment method is agreed and the individual contracts are signed, and only then can the entity assess whether revenue is recognised over time applying HKFRS 15.35.

The Committee was informed that this matter was discussed by the RRAP on 23 January. RRAP members raised concerns about the IC's tentative views that borrowing costs are not capitalised on work-in-progress relating to unsold units under construction and also the wider implications of the TAD. RRAP suggested submitting a comment letter to respond to the IC TAD.

The Committee noted that because the deadline for comment on the TAD was early February, there was insufficient time for the Committee to fully deliberate. Consequently, Committee members had agreed out of session that the comment letter should be submitted on behalf of the stakeholders, rather than as comments from the Institute. The comment letter was submitted on 11 February 2019.

SSD will monitor the outcome of the next IC meeting in March and will update the Committee on any further actions proposed at a future meeting.

SSD

The Committee also noted that SSD monitors IC tentative agenda decisions that relate to FRSC's high priority projects and that FRSC only responds to tentative agenda decisions that have major and widespread implications to Hong Kong stakeholders. SSD will provide regular reports to the Committee on future tentative agenda decisions and any proposed action.

SSD

4. **Insurance Contracts**

Maintaining IFRS/HKFRS 17 *Insurance Contracts* continuity and working knowledge on FRSC

The Committee agreed that former Committee members Ms. Sanel Tomlinson and Ms. Shelley So should continue to be a part of the chairperson pool for meetings of the Hong Kong Insurance Implementation Support Group (HKIISG) and should continue to be consulted (e.g. at FRSC meetings where necessary and/or appropriate) on matters relating to IFRS/HKFRS 17. This ensures there is continuity of knowledge and familiarity of issues with regards to HKFRS 17, especially as these former members were closely involved in past HKIISG meetings.

Out-of-session, Mr. James Fawls volunteered to chair future HKIISG meetings and declared his direct involvement in the implementation of

IFRS/HKFRS 17 for a bancassurance company. The Committee considered there is no conflict of interest for him to chair, and agreed he should be part of the HKIISG chairperson pool.

The composition of the HKIISG chairperson pool going forward will consist of Committee members Mr. Ernest Lee, Mr. Gary Stevenson, and Mr. James Fawls; and former Committee members Ms. Sanel Tomlinson and Ms. Shelley So.

Consideration of a two-tiered effective date for HKFRS 17

The Committee was informed of the separate meeting discussions in January that SSD and FRSC representatives had with:

- senior management of the Insurance Authority (IA); as well as
- the Chief Executive of the Hong Kong Federation of Insurers (HKFI), Mr. Peter Tam.

The focus of both meetings was to discuss how to help/encourage smaller/general insurers to implement HKFRS 17 by the effective date, noting that smaller general insurers are facing a lack of resources (talent and IT solutions) and any available resource is currently too costly to them.

In particular, the Committee discussed a suggestion by the Chief Executive of HKFI regarding the possibility of a two-tiered effective date for HKFRS 17: for example, requiring listed insurers to comply with the effective date of HKFRS 17 as per IFRS 17, but providing other non-listed insurers with an 'exemption' to comply with HKFRS 17 at a later date. The question was raised because delaying the effective date for smaller general insurers would help to alleviate the pressure of costs and resources. It is expected that, over time, implementation specialists and IT solutions will become less costly as they are released by the larger insurers.

The Committee recalled that:

- At its December 2017 meeting, it had decided that, on balance, it should approve and issue HKFRS 17 with the same effective date as IFRS 17 but undertake an ongoing monitoring and assessment of international and Hong Kong developments. This ongoing reassessment will enable the Committee to objectively consider how to respond to global developments and implementation challenges.
- At its December 2018 meeting, it had noted that, while implementation is underway for larger insurers, many smaller insurers are still in an early education phase about HKFRS 17 and accordingly have not made sufficient implementation progress for the Committee to reassess the effective date of HKFRS 17. The Committee agreed to continue monitoring implementation.

The Committee also considered the following information:

- SSD's review of company reporting under the HKFRS framework in accordance with the Companies Ordinance, the Insurance Ordinance and the Inland Revenue Ordinance;
- SSD's analysis of the consequences to insurers of not applying HKFRS 17 by its effective date; and
- SSD's analysis of possible ways to enact a two-tiered effective date if the Committee were to consider doing so.

The Committee noted that as many smaller general insurers have not

substantially started implementing HKFRS 17, there is no sufficient evidence that the standard is difficult to implement. Therefore, there is no new information since the FRSC's reassessment of the adoption of HKFRS 17 in December 2018 to warrant further reconsideration at this meeting.

The Committee considered there is an extremely high hurdle to enact a two-tiered effective date and that smaller insurers commencing implementation at a later date is not a sufficient reason for delaying the effective date of HKFRS 17.

The Committee committed to continue to monitor and support the implementation progress of smaller general insurers, and to reassess the adoption of HKFRS 17 (including any modifications such as a two-tiered effective date) once new information comes to light.

Other updates

The Committee noted SSD activities (including HKICPA's pocket summary on contract boundary and its insurance newsletter), international and IASB developments since December 2018.

5. Meeting with the Accounting Standards Board of Japan (ASBJ)

ASBJ representatives joined the meeting at 10:20 a.m.

The Chairman welcomed the ASBJ representatives and expressed the Committee's appreciation for the ASBJ's time and effort at the full day bilateral meeting with HKICPA on 25 February 2019 (see [press release](#) for details of the bilateral meeting).

ASBJ representatives presented to the Committee an introduction on the ASBJ and its activities, and an overview of accounting standards in Japan.

The ASBJ representatives and the Committee exchanged views on the following topics:

- Goodwill and Impairment;
- Virtual Currencies;
- Other Comprehensive Income; and
- IFRS Interpretations Committee Agenda Decisions.

In addition, the ASBJ representatives and Committee expressed interest in exploring opportunities for future cooperation.

ASBJ representatives left the meeting at the conclusion of this session.

6. Strategic Planning

Former Committee members Ms. Shelley So and Ms. Sanel Tomlinson joined the meeting at 12:00 p.m.

The Committee and its former members reflected on the 2018 activities against its 3-year strategic plan (2017-2019) which included:

- responding to high priority projects like Financial Instruments with Characteristics of Equity (FICE), amendments to IAS 1 *Presentation of Financial Statements*, and amendments to IFRS 3 *Business Combinations*;
- researching and reaching out to preparers from many industries, investors, audit practitioners including the Small and Medium Practitioners, and regulators to discuss Business Combinations

- under Common Control, FICE, improving the quality of disclosures and improving the accounting for goodwill;
- supporting the Hong Kong market in implementing major new standards through face-to-face stakeholder meetings, education sessions for preparers, practitioners, investors and regulators, published Q&As, pocket summaries and articles, and collaboration with IASB and other national standard-setters to resolve common technical issues;
- participating in international forums like IFASS, ASAF, AOSSG and sharing our research findings and observed implementation/application issues; and
- publishing a [clear process on standard-setting](#), and how stakeholders could contact SSD/FRSC.

The Committee agreed to continue with the direction in the strategic plan in 2019 and reassess the plan in 2020. In 2019, the Committee will continue to focus its efforts on:

- responding to high priority projects throughout the project life cycle and conducting research and outreach activities to inform its views;
- understanding, facilitating and addressing issues arising from applying/implementing HKFRS and SME-FRF/FRS; and
- enhancing stakeholder relations and engagement, and international representation, with particular focus on high priority projects.

The Committee thanked SSD for the work done in 2018 and its efforts made in increasing the Institute's standard-setting profile and activities in Hong Kong and internationally. Committee members also noted that they appreciated the active participation of SSD and individual Committee members in FRSC meetings, which enables robust discussions and in depth exchanges of views on technical issues.

The Committee considered it may have regular meetings with Hong Kong financial reporting regulators, and, in particular, consider how they could collectively elevate the quality of Hong Kong companies' presentation and disclosure in financial reports.

In relation to implementation of major new standards, the Committee noted that a few questions and challenges on implementing HKFRS 9 *Financial Instruments* and HKFRS 15—both effective on 1 January 2018—were raised in late 2018 by one industry group and the Small and Medium Practitioners Committee (SMPC) Technical Working Group. The Committee also noted that a lead time of around three years was provided to implement these standards. The Committee commented that implementation issues of new standards should be communicated to FRSC or SSD earlier in the process in order for the Committee to better support stakeholders and address implementation issues. On this note, the Committee recommended that its SMPC representative, Mr Gary Poon, regularly reports to the Committee implementation and application issues faced by small and medium sized entities and practitioners. SSD will continuously consider new ways for stakeholders to communicate directly to SSD and FRSC, for example, to raise accounting application and implementation issues.

Gary Poon

The Committee discussed whether it could better enhance the understanding of HKFRSs and whether it had provided sufficient guidance to support the application of standards. The Committee then noted that the Institute takes the view that stakeholders are ultimately responsible for their own education, understanding of the Standards, and understanding of how to account for transactions following principle-based standards—stakeholders should move away from seeking directive rules. The Institute plays a role in providing sufficient training and education, and SSD will continue to work closely with the Member

Support Department with regards to training events.

Due to the overrun of the meeting, the Committee decided to discuss the high priority project progress plan at its April meeting. There being no further business, the meeting closed at 1:00 p.m.

ERNEST LEE
CHAIR

8 April 2019