



Minutes of the 250th meeting of the Financial Reporting Standards Committee held on Tuesday, 28 May 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  
Mr. Steve Ong, Stock Exchange of Hong Kong Limited  
Mr. Ghee Peh, Jefferies  
Mr. Simon Riley, BDO Limited  
Mr. Jim Tang, KPMG  
Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance: Ms. Christina Ng, Director, Standard Setting  
Ms. Michelle Fisher, Deputy Director, Standard Setting  
Mr. Norman Chan, Associate Director, Standard Setting  
Ms. Carmen Ho, Associate Director, Standard Setting  
Ms. Joni Kan, 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  
Ms. Monica Ng, PricewaterhouseCoopers  
Mr. Gary Poon, Poon & Co.

Action

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

The Committee approved and the Chair signed the minutes of the 249th meeting.

The Committee noted the developments outlined in the FRSC and SSD work program and liaison log.

**2. Classification of Liabilities**

The Committee received an update on the IASB's Classification of Liabilities project and considered the IASB's tentative decisions relating to the comments made by the Institute on the Exposure Draft (ED) ED/2015/1 *Classification of Liabilities*.

In ED/2015/1, the IASB proposed to delete the term 'unconditional' from paragraph 69(d) of IAS 1 *Presentation of Financial Statements*. The Institute commented that the term is significant in determining a liability's classification in Hong Kong and recommended that if the IASB proceeds with its proposal it should provide clarification on the following two situations, which are common in Hong Kong.

- i. A borrower's right to defer settlement of a liability that is subject to conditions in the lending arrangement that will be tested only after the end of the reporting period

The Committee noted that the IASB tentatively decided to clarify in the final amendments that, in assessing an entity's right to defer settlement of a liability, compliance with any conditions in a lending agreement should be assessed as at the reporting date—even if the lender will not test the entity's compliance until a later date.

- ii. A term loan that is callable by the lender at any time irrespective of a payment schedule beyond one year

The Committee noted that the IASB tentatively confirmed that, as proposed in paragraph 69(d) of the ED, IAS 1 should require an entity to classify a liability as current if the entity does not have a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The IASB also noted that if the lender has a right to demand repayment at any time at its sole discretion, the entity does not have a right to defer settlement for more than twelve months and so would classify the loan as current, irrespective of the likelihood of the lender exercising its right. The IASB tentatively decided that it is not necessary to add further clarification on this to the ED proposals.

It is common in Hong Kong that term loans are callable by the lender at any time irrespective of a repayment schedule beyond one year. Consequently, the Committee agreed to consider issuing educational material when the final amendments are issued in Hong Kong if necessary.

#### Clarification of effect of settlement by equity instruments

The Institute also commented on ED/2015/1 that the IASB should clarify whether settlement by equity instruments would affect the classification of liability as current or non-current. The Committee noted that the IASB tentatively decided to add clarification in this area and also undertake targeted consultation to understand the practical effect of doing this.

One such clarification proposed by the IASB is to note that when a convertible bond or similar financial instrument includes a holder conversion option recognised separately as an equity component, the terms of the equity component do not affect whether the entity classifies the liability component as current or non-current. Some Committee members questioned why the classification of the liability component should be different depending on whether the conversion option is classified as equity or liability. SSD will monitor the IASB's discussion on the feedback from the targeted consultation and report back to the Committee for further consideration.

SSD

### **3. Primary Financial Statements**

The Committee received an update on the IASB's Primary Financial Statements project and the findings from SSD's research on reporting preferences in Hong Kong.

The Committee noted the following key IASB tentative decisions:

- To require presentation of three defined subtotals in the statement of financial performance; 'operating profit', 'operating profit and share of profit of integral associates/joint ventures', and 'profit before financing and income tax'.

- . To require separate presentation of integral and non-integral associates and joint ventures in the statement of financial performance and statement of cash flows.
- . To require the disclosure of a reconciliation in the notes between the management performance measures (measures of profit or comprehensive income that, in management's view, communicate the entity's financial performance) and the most directly comparable subtotal or total in paragraph 81A of IAS 1.
- . To require a consistent starting point (operating profit) for the indirect method for reporting operating cash flows in the statement of cash flows and to eliminate classification options for interest and dividends.
- . To set principles, definitions and process steps for aggregation and disaggregation.
- . To require disclosure of information about unusual items (income and expenses with limited predictive value).
- . To develop illustrative examples of the statement of financial performance and the statement of cash flows for certain industries.

In this project, the IASB is responding to concerns raised by investors that there is a greater need for comparability between entities, especially in the statement of financial performance and transparency of non-GAAP measures. In order to assess this concern and understand current reporting preferences in Hong Kong, SSD conducted research for 35 main board companies and 15 GEM companies in the following areas:

- . Structure and content of the statement of financial performance;
- . Presentation of operating profit, EBIT/ profit before financing and tax, and EBITDA;
- . Presentation of share of results of associates/joint ventures; and
- . Use of management performance measures.

The findings demonstrated that:

- . The structure and content of the statement of financial performance vary significantly even among companies in the same industry.
- . Most companies disclose operating profit, but companies determine operating profit differently.
- . It is not common for companies to disclose EBIT/profit before financing and tax/EBITDA, particularly in the financial statements.
- . Many companies disclosed additional adjusted profit measures without explanation, and the adjustments and measures vary between companies.
- . Companies in the same industry present the share of results of associates/joint ventures in different locations in the statement of financial performance.

The Committee noted the IASB plans to issue an ED on this project in the second half of 2019. The Committee observed that this is a high priority project and agreed with SSD's plans to issue a request for comment on the forthcoming ED, conduct targeted outreach activities and respond to the ED.

SSD

#### **4. Tentative agenda decision (TAD) on holdings of cryptocurrencies**

Further to its April meeting, the Committee received a summary of feedback from the FRSC's Financial Instruments Advisory Panel and SSD staff's latest analysis and recommendations.

The majority of the Committee members supported the IFRS Interpretations Committee finalising the TAD. However, some Committee members considered that the IASB should address the accounting for cryptocurrencies by standard setting and expressed the following concerns:

- . IAS 38 *Intangible Assets* was developed long before cryptocurrencies and was not designed with cryptocurrency transactions in mind. They questioned whether applying IAS 38 to cryptocurrency holdings (when holdings of cryptocurrencies do not meet the broker-trader exception in IAS 2 *Inventories*) would always provide useful information to users of financial statements.
- . The TAD only covers the accounting for holdings of cryptocurrencies. Considering the increasing number of entities in Hong Kong engaging in transactions that involve cryptocurrencies, or more broadly cryptoassets, and the fact that that such transactions are still evolving, questions about the accounting for such transactions will continue to arise.

The Committee decided that, on balance, it supported the Institute responding to the TAD to:

- . express support for finalising the TAD as interim guidance to eliminate the diversity in how entities currently account for holdings of cryptocurrencies; and
- . recommend the IASB commences a standard-setting project to develop a more robust accounting suitable for cryptocurrencies.

The Committee discussed the staff's draft submission and provided further input for the final submission, to be approved out-of-session.

SSD

[Post-meeting note: HKICPA's submission was sent to the IFRS Interpretations Committee on 30 May 2019.]

## 5. **Proposed amendments to the IFRS Foundation Due Process Handbook**

The Committee received an overview of the Exposure Draft of proposed amendments to the IFRS Foundation Due Process Handbook. The main proposed changes are to:

- . update the procedures relating to the use of effects analysis to be consistent with current activities;
- . clarify the role and status of agenda decisions published by the IFRS Interpretations Committee;
- . provide the IASB with the ability to publish its own agenda decisions;
- . refine the categorisation and review of educational material produced by the IFRS Foundation, which will clarify that all educational material should be subject to at least some level of IASB member review; and
- . refine the consultation required before adding major projects to the IASB's work plan.

The Committee considered its past discussions about the due process procedure for agenda decisions and agreed with SSD's proposed views that could form the basis of the Institute's submission. A draft submission will be considered for approval at the next FRSC meeting.

SSD

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

The Committee received a summary of feedback on the post-implementation review of the SME Standard. The Committee noted that the stakeholders' feedback indicates that the SME Standard is working as intended, and is suitable for entities with simple businesses or transactions to apply.

Based on the feedback received, the Committee agreed that no changes need to be made to the SME Standard except for the following limited scope amendments, which are subject to a future public consultation:

- clarify that the disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) of the SME Standard apply to consolidated financial statements only;
- permit but not require aggregation of the financial information of subsidiaries excluded from consolidation applying paragraph 19.2 of the SME Standard;
- allow an entity to use the carrying amount of an item of property, plant, equipment or intangible asset under the previous reporting framework at the date of transition as the item's deemed cost when transitioning to the SME Standard; and
- add lessor accounting requirements by considering the lessor accounting under *HKFRS for Private Entities* or the superseded *Statement of Standard Accounting Practice* relating to leases (the predecessor standards of the SME Standard) and a 'presentation currency' concept to the SME Standard.

The Committee agreed that SSD should work with the SME Standard Advisory Panel on drafting an exposure draft for the above proposed amendments and bring a draft exposure draft to a future FRSC meeting for consideration.

SSD, SME Standard Advisory Panel

**7. Topics for discussion with Darrel Scott**

The Committee noted that SSD had arranged a meeting between Darrel Scott, IASB member, the FRSC and SSD on 31 May 2019. The Committee agreed that the main objective of the meeting should be to share our and the IASB's observations and experiences of applying the new major Standards (IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*). The Committee also agreed to ask Darrel about the IASB's recent thinking on the adoption of IFRS 17 *Insurance Contracts* globally.

**8. Valuation**

The Committee noted that SSD and other departments of the Institute have been participating in a working group jointly led by the International Valuation Standards Council and the Royal Institute of Chartered Surveyors to improve the quality of the valuation profession in Hong Kong. Other parties involved in the working group include valuation experts of large valuation firms and accounting firms, the CFA Institute, the Hong Kong Institute of Surveyors, Chamber of Hong Kong Listed Companies and the Hong Kong of Independent Non-Executive Director Association. SSD will update the Committee on the future development of this working group in due course.

SSD

The Committee noted the Institute's Council has already indicated its support for the Institute to participate in initiatives that improve the quality

of valuations in financial reporting in Hong Kong. In this regard, the Committee agreed not to write to the Council as considered at its November 2018 meeting.

Due to the overrun of the meeting, the Committee decided to discuss the update on the goodwill and impairment project at its July meeting. There being no further business, the meeting closed at 11:30 a.m.

ERNEST LEE  
CHAIR

25 June 2019