



Minutes of the 253rd meeting of the Financial Reporting Standards Committee held on Thursday, 7 November 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
Ms. Candy Fong, Foremost Advisers Ltd
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Ms. Susanna Lau, Securities and Futures Commission
Ms. Cynthia Leung, Financial Reporting Council
Mr. Joe Ng, Ernst & Young
Ms. Monica Ng, PricewaterhouseCoopers
Mr. Steve Ong, Stock Exchange of Hong Kong Limited
Mr. Ghee Peh, Capital Luck Investments
Mr. Gary Poon, Poon & Co.
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
Ms. Carmen Ho, Associate Director, Standard Setting
Ms. Joni Kan, Associate Director, Standard Setting
Mr. Tiernan Ketchum, 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. Ramil Clemena, BlackRock Asset Management North Asia Ltd
Mr. James Fawls, HSBC

Action

1. **Minutes, work program, liaison log and IFRS Interpretations Committee (IC) tentative agenda decisions and agenda decisions**

The Committee approved and the Chair signed the minutes of the 252nd meeting.

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

The Committee also noted SSD's analysis and that there are no significant concerns on the five IC tentative agenda decisions that are open for comments until 25 November. The Committee noted that the six agenda decisions discussed at the July FRSC meeting were finalised by the IC with minor changes.

SSD staff noted that in late October they commenced outreach with industry experts and the regulator for the EFRAG's crypto-assets research, following the advice of the Committee at its September meeting. SSD also asked the Committee for help to identify further outreach participants, particularly preparers. SSD staff will update the Committee about the feedback received and staff suggested next steps at future meetings.

2. **IASB Exposure Draft ED/2019/5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The Committee received a summary of the comments on ED/2019/5 from the Taxation Advisory Panel and other stakeholders. In general, the Panel was supportive of the proposals in ED/2019/5 and agreed that they would reduce diversity in practice in how the recognition exemption in IAS 12 *Income Taxes* is applied to transactions where an entity recognises both an asset and a liability, such as leases and decommissioning obligations. However, the Panel suggested that the IASB should supplement ED/2019/5 with some additional guidance and examples in areas to help application.

The Committee agreed with the comments from the Panel and did not have any further comments on the draft submission prepared by the staff.

The draft submission was circulated for the Committee's approval/comments out-of-session to allow for comments from members who were unable to attend the meeting in person.

[Post-meeting note: The submission on ED/2019/5 was sent to the IASB on 14 November 2019]

3. **IASB Exposure Draft ED/2019/6 Disclosure of Accounting Policies**

Further to the overview of the proposed amendments discussed at its April meeting, the Committee noted that the IASB had issued ED/2019/6 in August. At this meeting the Committee received a summary of the comments on ED/2019/6 from SSD staff and the Disclosure Initiative Advisory Panel and other stakeholders.

In general, the Committee agreed with the suggestions on ordering and clarifying the requirements to help readers understand the proposals more easily. The Committee also recommended that the IASB should clarify that the proposed amendments only apply to making materiality decisions about the disclosure of accounting policies for the purposes of preparing general purpose financial statements; and therefore, assessing materiality for purposes other than the preparation of financial statements, for example determining key audit matters, is beyond the scope of the proposals.

The Committee noted that an entity may choose to disclose additional accounting policies to help users who are not IFRS specialists. However, the Committee also noted that entities should provide entity specific policies where possible, aim to avoid overload of information and exercise judgement in deciding where to disclose the additional policies to prevent obscuring material accounting policies.

SSD staff will circulate the updated submission to the Committee for approval out of session. The IASB's comment period ends on 29 November 2019.

SSD

[Post-meeting note: The submission on ED/2019/6 was sent to the IASB on 26 November 2019]

4. **Classification of Liability as Current or Non-current**

At its May meeting, the Committee noted that the IASB tentatively decided to clarify 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 host liability component as current or non-current, under IAS 1 *Presentation of Financial Statements*. Some Committee members

questioned why the classification of the host liability component should be different depending on whether the conversion option is classified as equity or liability. The Committee noted that the IASB will undertake targeted consultation to understand the practical effect of this clarification and SSD will monitor the IASB's discussion.

At this meeting, the Committee noted developments in the IASB's discussions. In particular, the IASB tentatively decided to go ahead with the proposal to clarify that, the statement in paragraph 69(d) of IAS 1 applies only to a counterparty conversion option recognised separately from the liability as an equity component of a compound financial instrument, and does not apply to a counterparty option or other obligation classified as a liability or part of a liability. The IASB expects to publish the final amendments in the first quarter of 2020 (effective from 1 January 2022).

The Committee noted that in Hong Kong, there is currently diversity in practice in the classification of the host liability component of a convertible bond denominated in a foreign currency as current or non-current. The forthcoming amendments would therefore result in some entities re-classifying the host liability component from non-current to current which, in turn, could lead to implications for loan covenants.

SSD recommended and the Committee agreed to consult the Financial Instruments Advisory Panel for their views on the IASB's tentative decision and the likely impact of the forthcoming amendments on current practice. SSD will report its findings back to the Committee for further consideration.

SSD &
Financial
Instruments
Advisory
Panel

5. **Goodwill and impairment**

Further to its September meeting, the Committee received an update on the IASB's goodwill and impairment project, SSD's joint project with the staff of the Accounting Standards Board of Japan (ASBJ), and outreach activities performed by the SSD staff. The Committee noted that during the World Standard-setters Conference (WSS) in late September, the IASB advised that the publication of its Discussion Paper is expected to be postponed to February 2020. The Committee noted that SSD and ASBJ staff have continued their discussions and development of their views on the nature of and subsequent accounting for goodwill and, whilst both SSD and ASBJ staff are generally supportive of reintroducing amortisation of goodwill, their supporting rationale for this approach currently differs slightly. SSD staff will continue discussions and work with the ASBJ staff.

The Committee also received an update about the following recent outreach activities carried out by the SSD staff:

- Together with the ASBJ staff, SSD led a presentation and roundtable discussion at the October International Forum of Accounting Standard Setters (IFASS) meeting, where participants discussed whether goodwill should be considered a diminishing asset and if a relevant amortisation period can be determined.
- SSD presented the current reporting concerns and challenges with goodwill accounting, and the SSD's views on the nature of and subsequent accounting for goodwill to members of the Hong Kong Society of Financial Analysts. SSD also received feedback on their views and insights on how the members interpret goodwill balances on the balance sheets.

SSD staff intend to incorporate views from these outreach activities into the staff paper.

In addition to these updates, the Committee was informed on developments in the SSD staff's technical views on the nature of goodwill, acquired versus internally generated goodwill, current issues with the impairment approach to subsequent measurement, and potential improvements to subsequent accounting for goodwill (including an amortisation approach for acquired goodwill). The Committee was generally supportive of the staff's technical views and approach, including arguments in favour of reintroducing amortisation. The Committee also provided feedback to the staff as to further potential arguments and considerations, which will be taken under advisement.

SSD will continue its work on the goodwill project, including outreach and development of staff views and potential publications. This will be done in consideration of the joint efforts with the ASBJ and IASB developments. SSD will bring this project to the FRSC again at a future meeting.

SSD

6. **Insurance Contracts**

The Committee was briefed on an issue concerning the treatment of premium-based profits tax on life insurance corporations, which was raised through the Hong Kong Insurance Implementation Support Group (HKIISG) and the Insurance Regulatory Advisory Panel (IRAP).

The Committee noted that in Hong Kong, assessable profits arising from life insurance business are determined per the requirements in Cap. 112 Inland Revenue Ordinance (IRO) Section 23. Those requirements allow an insurer to elect to determine its assessable profits as 5% of the premiums from life insurance business in Hong Kong during the basis period for that year.

The Committee considered two questions:

- Whether the profits tax is an income tax within the scope of HKAS 12 *Income Taxes*.
- Whether any form of deferral (deferred tax) should be applied related to the profits tax.

The Committee considered the SSD staff analysis of the questions, and requested the staff to consult the Income Tax Advisory Panel about comparability with non-insurance industries in Hong Kong that are subject to similar requirements for determination of profits tax. SSD will update the Committee on its findings in due course and seek its further views on this issue.

SSD

The Committee noted that SSD staff would present an update of the feedback on IASB ED/2019/4 *Amendments to IFRS 17* at a future meeting after the IASB completes its comment letter analysis. The Committee also considered and confirmed the replacement of a departing HKIISG member with a new member representing the same company.

7. **International meetings**

The Committee noted that the FRSC Chair and SSD staff attended the AOSSG meetings, WSS meeting, IFASS meeting and Accounting Standards Advisory Forum in London during 30 September to 3 October. In particular, the Committee noted the following:

- The IASB plans to issue several significant consultation papers in 2020 on projects in relation to business combinations under common control, and goodwill and impairment, among others.

- Staff from the Korea Accounting Standards Board presented their research and proposals on how to provide more useful information about intangible assets which are not captured by IFRS Standards. They propose entities could present a separate 'Statement of Core Intangibles' to provide monetary valuation of an entity's core intangibles. This would likely initially be a voluntary disclosure outside the financial statements.
- IFASS has a working group to develop international standards for Non-Profit Organizations (NPO) to address the reporting gap because there are no globally accepted financial reporting standards for NPO. The Institute did not apply to join the working group because it lacks the necessary standard setting experience in NPO accounting, which is a criterion for application. Instead, SSD will monitor the development of the working group.

8. Other Business

Guidance on recognising sponsor fee income applying IFRS 15 Revenue from Contracts with Customers

The Committee received an update on SSD's development of illustrative examples for the recognition of IPO sponsor fee income applying IFRS 15. The Committee noted that SSD is currently considering the comments received from FRSC members and the Securities Regulatory Advisory Panel and will circulate the updated examples to the Committee members later this month for endorsement.

SSD

Accounting for lease concessions

The FRSC Chair shared an emerging diversity in application on recent rent concessions provided by lessors to lessees to ease the current market conditions in Hong Kong. The diversity is whether to account for rent concessions as credits directly in profit or loss or as lease modifications under HKAS 16 *Leases*. The Committee requested SSD to discuss with the Leases Advisory Panel on this matter together with other commonly seen implementation issues.

SSD &
Leases
Panel

There being no further business, the meeting closed at 12:00 p.m.

ERNEST LEE
CHAIR

26 November 2019