



Minutes of the 254th meeting of the Financial Reporting Standards Committee held on Tuesday, 3 December 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. James Fawls, HSBC
Ms. Candy Fong, Foremost Advisers Ltd
Ms. Susanna Lau, Securities and Futures Commission (Dial-in)
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. 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
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
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Mr. Gary Poon, Poon & Co.

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

The Committee approved and the Chair signed the minutes of the 253rd meeting.

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

2. **Classification of Liabilities as Current or Non-current**

Further to its November meeting, the Committee considered the Financial Instruments Advisory Panel's feedback on the IASB's tentative decision to clarify that the second sentence of paragraph 69(d) of IAS 1 *Presentation of Financial Statements* applies only to a counterparty conversion option recognised separately from the liability as an equity component of a compound financial instrument.

SSD reported feedback from three panel members. Two noted support for the IASB's tentative decision. Panel members shared the Committee's observations that there is diversity in practice in the classification of the host liability component of a convertible bond (CB) denominated in a foreign currency as current or non-current and the IASB's tentative

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decision could have a significant impact on those entities with CBs denominated in foreign currency.

The Committee observed that many companies in Hong Kong issue CBs denominated in the company's functional currency or in a foreign currency and that companies classify the host liability of the CB as current or non-current based on features such as early redemption options and contractual cash flows due in the next twelve months. However, conversion options classified as liabilities are not considered when making this classification. The Committee also noted that the host liability of the CB will be classified differently under the IASB's tentative decision depending on whether the CB is denominated in the company's functional currency (non-current classification) or foreign currency (current classification). Without clearer rationale, the Committee is concerned that companies and users of their financial statements will find this difference in classification outcome confusing and counterintuitive and may fail to apply the amendments as intended. Therefore, the Committee recommended writing a letter to ask the IASB to:

- explain clearly in the basis for conclusions or illustrative examples accompanying the amendments the rationale for having a different classification of the host liability of CBs denominated in the functional currency versus a foreign currency; and
- provide illustrative examples accompanying IAS 1 to show how the forthcoming amendments are applied to the two common CBs identified by the panel.

SSD will prepare a draft letter and circulate to the Committee for approval out of session.

SSD

[Post-meeting note: The letter was sent to the IASB on 20 December 2019 and the IASB responded to FRSC on 13 January 2020.]

3. **Accounting for rent concessions under HKFRS 16 Leases**

At its November meeting, the Committee noted that rent concessions were given by many lessors to lessees to ease the current market conditions in Hong Kong. The Committee also noted there is diversity in practice in accounting for these concessions; whether to account for them as credits directly in profit or loss or as lease modifications. The Committee requested the SSD to discuss this issue with the Leases Advisory Panel.

SSD recommended and the Committee agreed to develop educational material to address the diversity in accounting for these rent concessions in the form of illustrative examples that were discussed with the panel. SSD will prepare the draft illustrative examples and circulate them for the Panel's further comments in December. Following our due process for educational material, SSD will discuss our analysis with the IASB staff and circulate the examples to the Committee for comments and approval.

SSD

[Post-meeting note: The illustrative examples were published on 31 January 2020.]

4. **HKFRS 17 Insurance Contracts**

The Committee received an update on the IASB's recent activities on the Exposure Draft *Amendments to IFRS 17* (ED), including the IASB's comment letter analysis and redeliberation plans. Further to its

September meeting, the Committee noted areas where the Institute had provided comments on the ED and the IASB's initial plans for redeliberations in those areas.

The Committee noted that the IASB expects to discuss comments on the effective date of IFRS 17 in February 2020. The Committee last discussed the progress towards adoption of HKFRS 17 in early 2019. Since then SSD reported that there has been progress on implementation amongst insurers according to the findings from the Insurance Authority's implementation readiness survey. The Committee also noted a letter from the Hong Kong Federation of Insurers (HKFI) about the effective date of HKFRS 17 and that SSD will arrange a meeting with HKFI representatives to discuss this letter further. The Committee continues to emphasize the importance of aligning HKFRS 17 with the effective date of IFRS 17, and that insurers in Hong Kong should proceed with implementation and not expect any jurisdiction-specific delays to the Standard.

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SSD will continue to monitor global discussions on the implementation of IFRS 17 and the IASB's redeliberations on the ED, and update the Committee at future meetings. SSD will also continue to work with the Hong Kong Insurance Implementation Support Group to monitor implementation issues on IFRS 17 and the ED in Hong Kong.

Further to its November meeting, the Committee also received an update on SSD's continuing work on the technical issue regarding the treatment of premium-based profits tax on life insurers in Hong Kong. The Committee noted that the issue will go through further due process and that SSD will provide an update at a future meeting.

5. **Business Combinations under Common Control**

Further to its September meeting, the Committee noted that SSD are drafting an exposure draft for the proposed amendments and illustrative examples to AG 5 *Merger Accounting for Common Control Combinations* and that SSD staff will bring a draft exposure draft to a future FRSC meeting for consideration.

The Committee also received a recap of the IASB's prior discussions and an update on the IASB's recent developments and tentative decisions since the September FRSC meeting. The Committee was also asked to consider SSD staff's preliminary views on the IASB's tentative decisions.

When to apply which measurement approach

The Committee noted that the IASB made the following tentative decisions:

- A current value approach based on the acquisition method should be required for BCUCC that affect non-controlling shareholders (NCS) of a receiving entity unless equity instruments of the receiving entity are not traded in a public market and one of the following conditions applies:
 1. All NCS are the receiving entity's related parties; or
 2. The receiving entity chooses to apply a predecessor approach and all its NCS have been informed about, and not objected to, the receiving entity applying that approach.
- A predecessor approach should be required for all other BCUCC.

Consistent with the views expressed at the September FRSC meeting, the Committee generally agreed with SSD staff's preliminary view that the

accounting method should not be solely based on the existence of an NCS in the shareholder structure of the receiving entity or whether the receiving entity is listed or non-listed. Instead, the accounting for BCUCC should depend on the substance of the transaction.

Some Committee members observed that there is diversity in practice in how receiving entities develop their accounting policy for BCUCC. For example, some entities account for all BCUCC in the same way even when the entity changes its listing status. Other entities account for BCUCC differently if the BCUCC takes place after the entity becomes listed. A predecessor approach is usually applied for pre-IPO BCUCC because those BCUCC are of similar nature to group restructurings or capital reorganisations. The acquisition method under HKFRS 3 is often applied to BCUCC after the receiving entity becomes listed because the nature of a BCUCC changes, for example, the entity becomes subject to stringent corporate governance and listing requirements.

One Committee member considered that a predecessor approach is not always the most suitable approach for BCUCC but may be less costly and easier to apply in practice.

Another Committee member considered that the IASB's tentative decision of requiring certain private entities to apply a predecessor approach to BCUCC appears inconsistent with the IASB's overall thinking that, in principle, the acquisition method provides the most useful information about a business combination to all financial statement users. However, this Committee member considered that private entities should be given the option to choose the accounting method from a cost-benefit perspective.

The Committee noted that, as proposed at its September meeting, SSD staff are exploring which factors should be considered when evaluating the substance of a BCUCC and plan to assess whether those factors would be useful to determine the substance and therefore the accounting for commonly-seen fact pattern in Hong Kong. The Committee agreed that SSD staff should also further analyse the impact of the IASB's tentative decision on Hong Kong companies.

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How to apply a predecessor approach

The Committee noted that the IASB has tentatively decided that when applying a predecessor approach, the receiving entity should:

- recognise and measure assets and liabilities transferred at the carrying amounts included in the financial statements of the transferred entity; and
- provide pre-combination information in the primary financial statements only about the receiving entity.

The Committee noted that this tentative decision would change the existing practice in Hong Kong because AG 5 requires the receiving entity to recognise and measure the transferred entity at the carrying amounts in the controlling party's financial statements, and restate its comparatives to include the pre-combination information of the transferred entity.

Some Committee members shared specific fact-patterns of BCUCC and asked SSD staff to explore which carrying amounts for the transferred entity (at the transferred entity's level vs at the controlling party's level) would provide the most useful information to users in those scenarios. The Committee noted that the IASB will continue its discussions on how to apply a predecessor approach and related disclosures at future

meetings. The Committee agreed that SSD staff should discuss the IASB's tentative decisions and their implications for Hong Kong companies with the Business Combinations and Reporting Entity Advisory Panel and consider the feedback from the post-implementation review of AG 5.

The Committee noted that SSD staff has continued its regular dialogue with the IASB's BCUCC team to provide input into the IASB project. SSD will continue to inform the Committee of further IASB developments. The IASB expects to issue a Discussion Paper in the first half of 2020.

6. Virtual assets

Further to its September meeting, the Committee received an update on SSD's local outreach and research on virtual assets (including both crypto-assets and cryptocurrencies) and the IASB's latest developments.

SSD's local outreach and research

The Committee noted that the purpose of SSD's local outreach and research is:

- to keep the Committee informed on potential issues for virtual asset accounting in Hong Kong; and
- to contribute to the global discussions and possible standard-setting activity on virtual assets, including responding to a questionnaire published by the European Financial Reporting Advisory Group (EFRAG) on virtual assets.

SSD staff reached out to local industry experts in October and November. Based on this outreach and SSD's own research, the Committee was briefed on an overview of the Hong Kong market for virtual assets, examples of current accounting issues, relevant regulatory initiatives, and the accounting and auditing environment in Hong Kong.

IASB latest developments

The Committee noted that at the IASB November meeting the IASB staff provided an update on their monitoring activities on virtual assets since late 2018. In particular, this update noted:

- In December 2018, the French Accounting Standard-Setter published a French accounting standard covering holdings and issuance of virtual assets.
- The number of IFRS reporters with holdings of cryptocurrencies increased from 26 in 2017 to 66 in 2018. However, the majority of these entities only held a small amount of cryptocurrencies when comparing the carrying amount of cryptocurrencies held to the carrying amount of their total assets. Few publicly-listed IFRS reporters issued virtual assets in 2017 and 2018.

The IASB was not asked to make any decisions and will continue to monitor virtual asset developments.

The Committee noted that the level of interest in virtual assets transactions is increasing in Hong Kong and there are still accounting challenges under the existing accounting standards. The Committee agreed there remains a need for more robust accounting guidance for virtual assets. The Committee agreed with the following SSD proposals:

- Respond to the EFRAG's research on virtual assets by providing the results of our outreach in Hong Kong as discussed at this meeting;

- Recommend the IASB includes virtual assets as a potential project for the IASB's future work plan in its *2020 Agenda Consultation Request for Information* to seek public feedback on whether the IASB should commence a standard-setting project on virtual assets; and
- Set up a project webpage on the Institute website with accounting resources and updates for virtual assets in Hong Kong.

7. **Other Business**

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

Further to the update at its November meeting, the Committee approved publication of the illustrative examples for the recognition of IPO sponsor fee income as drafted in the version circulated to Committee members after the November meeting. SSD will monitor the feedback received on the illustrative examples and consider whether the industry needs any further guidance.

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There being no further business, the meeting closed at 11:45 a.m.

ERNEST LEE
CHAIR

4 February 2020