



Minutes of the 256th meeting of the Financial Reporting Standards Committee held on Tuesday, 5 May 2020 at 8:30 a.m. via videoconference.

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
Mr. Kenneth Lau, Crowe (HK) CPA 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, IEEFA
Mr. Simon Riley, BDO Limited
Mr. Richard Poon, AIA Group
Mr. Jim Tang, KPMG
Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance: 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. Choy Kai Sing, Daido Group Limited
Mr. James Fawls, HSBC
Mr. Brett Shadbolt, Censere

Action

1. Minutes, work program and liaison log

The Committee approved the minutes of the 255th meeting.

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

The Committee noted that the IASB has made changes to its workplan to provide more time to stakeholders due to the covid-19 pandemic, including extending the consultation period of three ongoing consultation documents by approximately three months and delaying publication of other planned consultation documents.

The Committee also noted that the revised timelines on the IASB's projects have been reflected in the FRSC and SSD work program and that the Institute has extended its own comment deadlines on the IASB's consultation documents accordingly.

IASB ED/2020/3 Classification of Liabilities as Current or Non-current—
Deferral of Effective Date

The Committee noted that on 4 May the IASB published an Exposure Draft with a 30-day comment period that proposes to defer by one year the effective date of *Classification of Liabilities as Current or Non-current*, amendments to IAS 1 *Presentation of Financial Statements*. The IAS 1

amendments were issued in January 2020, effective for annual reporting periods beginning on or after 1 January 2022. However, in response to the covid-19 pandemic, the IASB is proposing to provide companies with more time to implement any classification changes resulting from the amendments.

The Committee supported the IASB's proposal to defer the effective date of the IAS 1 amendments to annual reporting periods beginning on or after 1 January 2023 and agreed the Institute should defer the issuance of the equivalent amendments to HKAS 1 *Presentation of Financial Statements* until the IASB issues the final amendment to defer the effective date. SSD staff will circulate a draft submission for the Committee to consider and approve out of session, together with any feedback from stakeholders.

SSD

[Post-meeting note: The submission on ED/2020/3 was sent to the IASB on 3 June 2020.]

2. **COVID-19-related accounting issues**

Accounting for COVID-19-related rent concessions

The Committee noted that the IASB has published an Exposure Draft (ED) ED/2020/2 *Covid-19-Related Rent Concessions* (Proposed amendment to IFRS 16) that proposes to provide a practical expedient in accounting for covid-19-related rent concessions by lessees and has also issued educational material on accounting for covid-19-related rent concessions.

ED/2020/2 Covid-19-Related Rent Concessions (Proposed amendment to IFRS 16)

The Committee was briefed on the proposals in the ED and the feedback received from local stakeholders, including the Leases Advisory Panel and the comment letters received to date (refer to the HKICPA website¹ for comment letters received and Panel meeting summary).

The Committee generally supported the IASB's proposals, but suggested some areas that would benefit from clarification. The Committee also observed that there are special circumstances in Hong Kong because, prior to the covid-19 pandemic, lessors have been providing rent concessions due to the market conditions following months of political unrest. Hence, the Committee noted that judgement may be required to determine if a rent concession is occurring as a direct consequence of the covid-19 pandemic. The Committee also noted feedback from local stakeholders supported having a similar practical relief for lessors, who can also encounter significant difficulties in assessing whether a large volume of rent concessions are lease modifications.

SSD staff will prepare a draft submission that incorporates the Committee's comments and the feedback from stakeholders and circulate it for the Committee to consider and approve out of session, together with any additional feedback received from stakeholders after the meeting.

SSD

The Committee also noted the importance of responding quickly to approve equivalent amendment to HKFRS 16 *Leases* upon finalisation of the amendment to IFRS 16 by the IASB.

¹ <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/financial-reporting-submissions/2020>

Local educational material

The Committee noted that the Institute had published illustrative examples on accounting for rent concessions² in January 2020 following the Committee's direction at its December 2019 meeting. In the light of the IASB's ED and educational material, SSD staff consulted the Leases Advisory Panel on whether additional local guidance is needed. The Committee agreed with the feedback from the Leases Advisory Panel that the Institute should develop additional local educational material to illustrate the application of the practical expedient proposed in the ED to common rent concession scenarios in Hong Kong.

SSD staff will work with the Leases Advisory Panel to prepare the educational material. SSD staff will then circulate the examples to the Committee for comments and, following due process, consider if any areas require discussion with the IASB staff.

SSD

[Post-meeting note: The submission on ED/2020/2 was sent to the IASB on 8 May 2020. The final amendment to IFRS 16 was published by the IASB on 28 May 2020 and the equivalent amendment to HKFRS 16 was approved by the Committee out of session and published on 4 June 2020. The Institute's additional educational material was also approved by the Committee out of session and published on 8 June 2020.]

Other COVID-19-related financial reporting issues

Following the Committee's direction at its February meeting, the Institute published educational guidance³ in early March on the financial reporting implications of the covid-19 pandemic aimed primarily at reporting periods ended on 31 December 2019. At this meeting, SSD staff updated the Committee on the main covid-19-related financial reporting issues that SSD staff have been made aware of for 2020 reporting periods through communications with practitioners and the FRSC's advisory panels.

The Committee supported SSD staff to develop additional educational material on the financial reporting considerations for the effect of covid-19 on 2020 reporting periods and recommended this additional educational material should cover key issues identified in the following areas:

- Classification of fixed overhead cost during low production
- Impairment of non-financial assets
- Fair value measurements
- Expected credit losses for financial Instruments
- Capitalisation of borrowing costs
- Government grants
- Interim financial reporting

SSD staff will prepare and circulate the educational material to the Committee.

SSD

[Post-meeting note: The Institute's educational material was approved by the Committee out of session and published on 9 June 2020.]

² https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/06_New-and-major-stds/ie161.pdf

³ https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Standards-and-regulation/SSD/03_Our-views/Financial-Reporting-Auditing-and-Ethics-Alert/alert33a.pdf

3. **Proposed amendments to Accounting Guideline 5 Merger Accounting for Common Control Combination (AG 5)**

Further to its September 2019 meeting, the Committee received a recap of its prior discussions following the post-implementation review of AG 5. The Committee also noted that SSD staff had prepared a draft ED of proposed amendments to AG 5 based on the FRSC's direction and discussed it with the Business Combinations and Reporting Entity Advisory Panel. The Committee was briefed on the feedback from the Panel, and was asked to consider SSD staff's analysis and the draft ED, updated after considering feedback from the Panel.

The draft ED proposes the following amendments:

- (a) Updating terminologies and references in AG 5;
- (b) Providing better rationale in paragraph 5 of AG 5 for transactions involving inserting a shell company;
- (c) Adding new disclosure requirements to paragraph 19 of AG 5 to improve the transparency of common control combinations; and
- (d) Clarifying the accounting treatment for changes in non-controlling interests in paragraph Y5 of the existing example in AG 5.

The Committee agreed with the proposed amendments and the way they had been drafted in the ED, subject to minor editorial changes.

The Committee also noted the feedback from a panel member regarding making restatement of comparatives optional. The Committee considered the SSD staff's analysis and the overall aim of the ED which is to make limited amendments to AG 5 pending the outcome of the IASB's Business Combinations Under Common Control (BCUCC) project. The Committee agreed not to propose amendments to the requirement of restating comparatives but will seek feedback on whether other amendments to AG 5, on top of those proposed in the ED, should be considered before the IASB finalises its BCUCC project.

SSD staff will prepare a revised draft ED based the Committee members' feedback and circulate it for the Committee's approval out of session.

SSD

4. **IASB ED/2020/1 Interest Rate Benchmark Reform–Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

The Committee received an overview of the proposed amendments in the IASB's ED and the feedback received from local stakeholders, including the Financial Instruments Advisory Panel (the FI Panel), up to the date of the meeting (refer to the HKICPA website⁴ for comment letters and meeting summaries).

The Committee noted that the FI Panel and SSD staff generally agreed with the IASB's proposals to provide a practical expedient and relief to help address the financial reporting issues solely arising from the replacement of an interest rate benchmark. Without the proposed practical expedient and relief, entities would encounter practical difficulties to apply the existing IFRS Standards to account for the changes as a result of the reform. The Committee also noted that the FI Panel and SSD staff suggested some

⁴ <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/pcd/financial-reporting-submissions/2020>

improvements to the specific paragraphs in the ED that would help to clarify the proposals.

The Committee noted that SSD staff will further reach out to stakeholders to understand the usefulness of the information provided under the proposals. SSD staff will circulate an update of stakeholders' feedback, SSD staff analysis and a draft submission for the Committee to consider and approve out of session.

SSD

[Post-meeting note: The submission on ED/2020/1 was sent to the IASB on 25 May 2020.]

5. **Insurance Contracts**

Further to its discussions at previous meetings, the Committee received an update on the status of the HKFRS 17 *Insurance Contracts* project and related activities, including the premiums-based profits tax issue and endorsement plans for the amendments to HKFRS 17.

The Committee noted that it had last discussed the HKFRS 17 project in February 2020, at which time it received an update on how the IASB had thus far dealt with the Institute's main comments on the IASB's ED *Amendments to IFRS 17*. The Committee noted that the IASB had continued its redeliberations on the ED during February and March 2020, and was advised by SSD staff on the key tentative decisions made during those meetings.

The Committee was updated on recent Hong Kong Insurance Implementation Support Group (HKIISG) activities, including its March meeting during which a local technical submission on the derecognition requirements in IFRS 17 was discussed. The Committee also noted that SSD staff volunteered and participated in an external review of a confidential IASB staff draft of the amendments to IFRS 17 along with other volunteers from national standard setters and other organisations.

Further to its December 2019 meeting, the Committee was briefed on SSD staff's continuing work on the technical issue regarding the treatment of premium-based profits tax on life insurers in Hong Kong. The Committee was advised that given expected changes to relevant requirements in IFRS 17 as part of the amendments to the Standard, SSD suggest to postpone any potential decisions on this issue to a later date after the final amendments are issued.

The Committee noted that SSD staff will continue to monitor the IASB's work on the finalisation of the amendments in preparation to bring equivalent amendments to HKFRS 17 to the Committee for consideration of endorsement at an upcoming meeting. The Committee also noted that SSD staff will be providing a summary of the due process carried out in respect of the amendments for the Committee's consideration, including how the IASB has addressed the Institute's comments.

SSD

6. **Goodwill and Impairment**

The Committee received an update on the IASB's goodwill and impairment project, and noted that the IASB published its Discussion Paper (DP) *Business Combinations - Disclosures, Goodwill and Impairment* on 19 March 2020. The DP explores possible improvements to the information that companies report about business combinations, and seeks feedback on the accounting for goodwill arising from such transactions.

The Committee also received an update on SSD activities since its February meeting including the finalisation of the joint staff Research Paper *Goodwill: Improvements to Subsequent Accounting and an Update of the Quantitative Study*, which was published by both the Institute and the Accounting Standards Board of Japan on their respective websites on 24 March 2020. The Committee noted SSD staff have engaged in additional efforts to promote the Research Paper and related activities, including A Plus articles and a presentation at the IASB's Accounting Standards Advisory Forum on 2 April 2020. The Institute has published an Invitation to Comment on the IASB's DP on its website with a local due date of 14 November 2020.

The SSD staff advised the Committee that outreach and promotional activities will continue on both the DP and Research Paper in the following months. SSD staff will also continue to monitor the global debate on the DP and the comments received from local stakeholders on the Institute's Invitation to Comment. SSD staff will provide the Committee with an update on these activities and a detailed overview of the IASB's Discussion Paper at a future meeting.

SSD

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

ERNEST LEE
CHAIR

26 June 2020