



Minutes of the 258th meeting of the Financial Reporting Standards Committee held on Friday, 4 September 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
Mr. Choy Kai Sing, Daido Group Limited
Ms. Candy Fong, Foremost Advisers Ltd
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. Richard Poon, AIA Group
Mr. Simon Riley, BDO Limited
Mr. Brett Shadbolt, Censere
Mr. Jim Tang, KPMG
Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance: 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. James Fawls, HSBC
Ms. Kelly Kong, Jardine Matheson & Co., Limited

Action

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

The Committee approved and the Chair signed the minutes of the 257th meeting.

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

The Committee received an update on the feedback received from the Financial Instruments Advisory Panel and SSD's analysis on the IC tentative agenda decision (TAD) on supply chain financing arrangements. The Committee agreed with SSD staff's view that no significant issues have been identified with the TAD and therefore the Institute does not respond to the TAD. The Committee also agreed that SSD should monitor the IC's future discussions about the need for a standard-setting project on the disclosures of supply chain financing arrangements.

2. **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current**

Interpretation of 'right to defer settlement' in paragraph 72A of the Amendments to HKAS 1

At its June meeting, some Committee members raised concerns about the interpretation of 'right to defer settlement' in paragraph 72A of the Amendments to HKAS 1, and questioned whether a right to defer the settlement exists at the end of the reporting period if (a) the lender tests compliance with specified conditions based on particular financial results at a specified date other than the end of the reporting period, and (b) the entity would not meet the conditions at the end of the reporting period if the lender were to test based on the financial results at the end of the reporting period.

At this meeting, the Committee noted that SSD reached out to the Disclosure Initiative Advisory Panel (Panel) and the Panel shared mixed views on the interpretation of paragraph 72A. The Committee also noted that SSD reached out to the IASB staff. The IASB staff noted the same concern raised by some large accounting firms and that in the coming months they will gather information on where additional clarity might be helpful, particularly on paragraph 72A.

The Committee also expressed mixed views and shared examples on the interpretation of paragraph 72A. The Committee agreed that SSD staff should share local views and an illustrative example in the draft educational material to the IASB staff for their consideration in clarifying the interpretation of paragraph 72A. The Committee also agreed that SSD staff should continue to monitor the IASB's development as it considers additional clarification of paragraph 72A, and should update the Committee in due course.

SSD

[Post-meeting note: An email was sent to the IASB staff on 17 September and a video conference call with the IASB staff was arranged on 5 October to clarify the interpretation of paragraph 72A.]

Proposed updates to HK Int 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* and supporting questions and answers

The Committee noted that a Panel member raised a concern about the interaction between paragraph 72A of Amendments to HKAS 1 and HK Int 5. This Panel member considered that paragraph 72A does not consider the rights of the lender at the reporting date and this may be inconsistent with the conclusion in paragraph 10 of HK Int 5, which requires entities to consider the rights and obligations of the lender and the borrower in the classification of liabilities. Most Committee members considered that there is no inconsistency between these two paragraphs as they are addressing different situation. However, two Committee members shared their views that inconsistencies may arise depending on how contractual rights are considered when interpreting paragraph 72A.

The Committee suggested that SSD staff consider clarifications in the proposed updates to HK Int 5 to address the Committee members' concern. SSD staff will circulate a revised version for the Committee to consider and approve out of session.

SSD

Draft educational material on Amendments to HKAS 1

SSD staff presented revised draft educational material, which incorporated the Committee's drafting suggestions provided at its June meeting. The Committee noted that one of the illustrative examples in the draft education material involves the application of paragraph 72A of Amendments to HKAS 1, which is still subject to clarification as noted above. Therefore, the Committee recommended SSD to seek advice from the IASB staff on the

SSD

illustrative example and defer publication of the educational material until further clarification of paragraph 72A has been made by the IASB.

3. **Leases**

Application issue: Waiver of lease payments with partial extinguishment of lease liability

The Committee received an update on the Leases Advisory Panel (Panel) discussion about the application and interaction of HKFRS 16 *Leases* and HKFRS 9 *Financial Instruments* regarding the timing of recognition of the waiver of lease payments with a partial extinguishment of the lease liability, as described in the IASB's educational material.

The Committee agreed with the Panel's view that there is a potential inconsistency between the scope of HKFRS 16 and HKFRS 9. The Committee also agreed with the SSD staff's recommendation to clarify with the IASB staff the scope of these two Standards, and how to interpret the IASB's educational material in respect of this application issue.

SSD

[Post-meeting note: An email was sent to the IASB staff on 9 September and a video conference call with the IASB staff was arranged on 16 September to clarify the scope of IFRS 9 and IFRS 16.]

Proposed joint project with the Malaysian Accounting Standards Board (MASB)

The Committee received an overview of a joint project proposed by the MASB, which aims to help guide the thinking on transition arrangements permitted in future new IFRSs by researching feedback on the practical expedients and transition options available under IFRS 16 *Leases*. The Committee also noted the timeline and expected deliverables of the proposed joint project and SSD staff's analysis on the project's potential benefits and challenges.

Some Committee members questioned the scope of the project and its priority in relation to other ongoing projects. The Committee suggested SSD staff to further clarify the scope and objective of the proposed joint project with the MASB, and to assess the resources, costs and benefits of participation for the Committee's further consideration at the next meeting.

SSD

[Post-meeting note: A video conference call with the MASB was arranged on 22 September to further discuss the scope and objectives of the proposed joint project.]

4. **IASB DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment**

The Committee was updated on the current status of the IASB and the Institute with respect to the goodwill and impairment project, and the SSD staff's tentative schedule for the project in Q4 2020.

The Committee was presented an education session about the background of the IASB DP/2020/1 and the details of its contents.

5. **IASB ED/2019/7 General Presentation and Disclosures**

The Committee was updated on the stakeholders' feedback received since its June meeting. The Committee considered the draft submission on the

IASB ED/2019/7 and provided drafting suggestions to SSD. SSD staff will circulate a revised draft submission for the Committee to consider and approve out of session. SSD

[Post-meeting note: The submission on ED/2019/7 was sent to the IASB on 28 September 2020.]

6. Insurance Contracts

The Committee received an update on the status of the HKFRS 17 *Insurance Contracts* project, and developments with regard to the amendments to IFRS 17 that had taken place since the Committee last met in June 2020.

The Committee was presented with a memorandum that documented due process taken with respect to the amendments to IFRS 17, and provided considerations for endorsement of those amendments in Hong Kong.

The Committee was advised on the due process steps undertaken by the Institute with regard to the amendments to IFRS 17, and noted that due process had been complied with, and that due consideration had been given to the changes made by the amendments to IFRS 17. The Committee was further advised on factors relevant to endorsement and the SSD staff's considerations on each factor.

As part of the endorsement consideration, the Committee was updated on developments relevant to Hong Kong's endorsement of the amendments to IFRS 17. The Committee noted that the Institute had carefully considered a number of key issues to local stakeholders, including a globally consistent effective date. With regard to effective date, the Committee received an update on regional and international endorsement decisions and discussions. The Committee also received an update on the readiness of insurers to implement IFRS/HKFRS 17 in a timely manner.

The Committee, after consideration of due process, the endorsement considerations, and the update on relevant developments, agreed to endorse the amendments to IFRS 17 and issue equivalent amendments to HKFRS 17.

7. 2020 Annual Accounting Update

The Committee provided recommendations for the 2020 Annual Accounting Update conference, scheduled to take place on 28 November 2020 via webinar. The Committee agreed that the focus of the conference should be COVID-19 related financial reporting issues for 2020 reporting periods and application of new major standards (e.g. HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16).

8. Other business

HKFRS 16 educational material

The Committee received an overview of SSD staff's plan to address the enquiries raised by stakeholders on determination of a lessee's incremental borrowing rate of a lease and develop educational material on this topic in the form of illustrative examples, which follows educational material on HKFRS 16 published in December 2018.

The Committee generally supported SSD staff to develop such educational material and provided some drafting suggestions. SSD

SSD staff aim to provide the draft educational material for the Committee's comments at the next FRSC meeting.

Application issue on the concessions to toll road operators under COVID-19

A Committee member shared that there may be situations where the PRC government plans to provide concessions to, or otherwise compensate, toll road operators for 'toll-free' periods due to COVID-19. The Committee preliminarily discussed the accounting treatments on this issue. The Committee will consider whether further discussion and/or action is necessary as additional information arises about this issue's fact pattern(s) and prevalence.

Administrative matter

The Committee noted that they are welcome to propose agenda items for the next FRSC meeting no later than 15 working days prior to the meeting date.

It was noted that the next meeting was scheduled on 13 October 2020.

There being no further business, the meeting closed at 12:35 p.m.

ERNEST LEE
CHAIR

5 October 2020