



Minutes of the 259th meeting of the Financial Reporting Standards Committee held on Tuesday, 13 October 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
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Mr. Kenneth Lau, Crowe (HK) CPA Limited
Ms. Susanna Lau, Securities and Futures Commission
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. Tiernan Ketchum, 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. Cynthia Leung, Financial Reporting Council

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

The Committee approved the minutes of the 258th meeting.

The Committee noted the developments outlined in the FRSC, IC agenda decisions and SSD work program and liaison log.

2. **2019 Comprehensive Review on IFRS for SMEs Standard (2019 Review)**

The Committee was updated on and discussed the stakeholders' feedback received since its June meeting. The Committee considered the draft submission on the 2019 Review, and provided content and drafting suggestions to SSD. It was agreed that SSD staff would circulate a revised draft submission to the Committee for consideration and approval out of session.

[Post-meeting note: The submission on 2019 Review was sent to the IASB on 22 October 2020.]

Action

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3. Leases

Educational material: Determination of the lessee's incremental borrowing rate for a lease under HKFRS 16 Leases

The Committee received an overview on the development of the educational material on the determination of the lessee's incremental borrowing rate for a lease under HKFRS 16 (in addition to the Questions and Answers published in December 2018) to address enquiries raised by stakeholders. SSD staff presented the draft educational material, which incorporated comments from the Leases Advisory Panel (Panel) and suggestions from a Committee member.

A Committee member provided further drafting suggestions, including:

- to emphasise the collateral provided in a lease should refer to the right-of-use asset; and
- to clarify the relationship between the present value of the lease liability and the value of the right-of-use asset.

SSD staff will incorporate the Committee's comments and share the revised draft educational material to the IASB staff for their comments. The draft will then be brought to the following FRSC meeting for consideration and approval.

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[Post-meeting note: An email was sent to the IASB staff on 16 October to seek for their comments on the draft educational material. Comments were received from IASB staff on 10 November and a follow-up discussion was held on 16 November.]

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

The Committee received an update on the SSD staff's clarification with IASB staff on the potential inconsistency between the scope of IFRS 16 and IFRS 9 *Financial Instruments*, as applied to the waiver of lease payments with the partial extinguishment of a lease liability. The Committee also was updated on feedback from the Panel on the responses from IASB staff.

The Committee noted that SSD staff had communicated with IASB staff to clarify the potential inconsistency between the two Standards, and discussed the matter with reference to example scenarios. The Committee noted that either IFRS 16 or IFRS 9 would be applicable under the scenarios, and IFRS 9 is applicable to situations where the obligation of the lessee is legally released by the lessor.

The Committee also noted that Panel members who responded to SSD staff generally agreed with the views from IASB staff, and proposed different actions to be taken by the Institute to address this issue. Similarly, Committee members expressed mixed views on the further action to be taken, including the publication of local educational material, submission to the IFRS Interpretation Committee or a formal letter to the IASB.

Further to Committee's consideration, the majority of the Committee members agreed to task the SSD staff to write to the IASB for further clarification on the scope of IFRS 16 and IFRS 9, and to recommend that the IASB should consider addressing this potential inconsistency through an annual-improvement project.

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SSD staff will gather examples to illustrate the issues and prepare a draft letter to the IASB for the Committee's consideration at an upcoming meeting.

[Post-meeting note: An email was sent to the IASB staff on 29 October and a video conference was held on 5 November to further clarify with IASB staff on the scope and application issues of IFRS 16 and IFRS 9.]

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

The Committee received a verbal update on a joint project proposed by the MASB on transition arrangements in IFRS 16, to follow up on questions concerning the scope and objectives of the project raised by Committee members at the September FRSC meeting.

Some Committee members indicated concerns that the proposed project may not be of sufficiently high priority for the FRSC at this point, in light of other priority projects and available resources. The Committee asked SSD staff to communicate with the MASB that the Institute will not engage in this proposed joint project at this point.

[Post-meeting note: The Committee chairman communicated with the MASB on 25 November that the Institute would not engage in the proposed joint research project.]

4. Update on the application issue on the concessions to toll road operators under COVID-19

At its September meeting, a Committee member shared an application issue regarding the accounting treatment for the concessions to toll road operators for 'toll-free' periods due to COVID-19.

As part of the measures to encourage companies to resume work and production during the COVID-19 outbreak, the PRC government implemented a policy that exempted vehicles from toll fees on PRC toll roads, toll bridges and tunnels for 79 days in the first half of 2020 (the 'Toll Fee Exemption'). Toll road operators were not allowed to collect toll fees, however were still required to operate the toll roads during the 'toll-free' periods. To compensate for the financial impact on toll road operators as a result of the Toll Fee Exemption, the PRC government is considering to extend the concession periods for toll road operators. In determining the period of extension, the PRC government will consider various factors, e.g. estimated amount of revenue loss, actual amount of operating costs incurred and time value of money. However, the factors considered and the details of calculation varies from company to company.

There is diversity in views in how to account for the concessions to toll road operators, in particular, whether the extended concession periods can be recognised as toll revenue for 2020 reporting periods.

At this meeting, the Committee received an update on feedback received from SSD staff's initial outreach and SSD staff's preliminary views. The Committee noted there are a variety of fact patterns surrounding this issue, and agreed with SSD staff's view that the accounting would depend on the facts and circumstances of each compensation plan. The Committee noted that most of the toll road operators are currently discussing with the PRC government and have not yet finalised the compensation plans. The Committee agreed that SSD staff should monitor the development of this

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issue, and if subsequently it is considered necessary, discuss it with the Revenue Panel and the Committee further.

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

Update on outreach activities and feedback

The Committee received an overview of the goodwill and impairment project and the SSD staff's outreach activities, which included:

- meetings with Committee's Advisory Panels;
- a meeting with the Small and Medium Practitioners Technical Issues Working Group; and
- a public roundtable discussion with IASB representatives and local stakeholders.

The Committee received an update on the feedback received from the SSD staff's outreach activities, covering the following three major areas:

Disclosures

Committee members generally shared similar views as those received from stakeholders in the outreach activities. Committee members expressed concerns on the sensitivity of certain proposed new disclosures, and that the proposed requirements may lead to generic and boilerplate disclosures which provide limited useful information to investors. Committee members also provided some suggested disclosures to improve the proposals.

Goodwill impairment and amortisation

Committee members shared their views on the subsequent accounting for goodwill with a majority indicating support for amortisation of goodwill. Those who were more supportive of amortisation commented that the fundamental nature of goodwill and the conceptual accounting issues should be considered, and noted the arguments as laid out in the Institute's Research Paper on the accounting for goodwill issued in March 2020.

Other topics

Committee members provided their views on the IASB's preliminary proposals on certain areas, including the relief for the annual goodwill impairment test, presentation of equity before goodwill and allowing the estimate of value-in-use to include cash flows from a future uncommitted restructuring.

SSD staff will provide an update on any further stakeholders' feedback and prepare a draft submission based on the Committee's direction for the next FRSC meeting.

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6. **Insurance Contracts**

The Committee was updated on the SSD staff's progress with issuing the Amendments to HKFRS 17 and confirmed details around related communication activities.

The Committee was further presented with draft educational guidance on accounting for the contractual service margin under HKFRS 17. The Committee members were generally supportive of the direction of the guidance. One Committee member offered a number of technical and

drafting suggestions to be considered further by SSD. The Committee noted that SSD will further consider the member's comments and will subsequently bring the draft to the Committee again for finalisation and approval.

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[Post-meeting note: The Amendments to HKFR 17 was issued on 19 October 2020.]

7. **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/IAS 1

Further to its September FRSC meeting, the Committee noted that SSD staff communicated with IASB staff regarding Hong Kong stakeholders' mixed views on the interpretation of paragraph 72A of the Amendments to HKAS/IAS 1 and related examples commonly seen in Hong Kong.

In SSD's update on communication with IASB staff, the Committee noted that in developing paragraph 72A, when assessing a borrower's right to defer settlement of a liability, compliance with any conditions in the loan agreement should be assessed at the end of the reporting period, even if the lender will not test such compliance until a later date. The Committee also noted the principle is to classify a liability as non-current only if the borrower has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

Some Committee members commented that the Amendments to HKAS/IAS 1 do not specify the method that should be used in testing compliance for financial performance (e.g. as noted in paragraph BC48E), and is unclear as to whether an entity is permitted to use projected/forecasted financial information in testing compliance at the reporting date. The Committee requested that SSD staff share the Committee members' comments to the IASB staff for their consideration in clarifying application issues related to testing compliance at the end of the reporting period.

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[Post-meeting note: An email was sent to the IASB staff on 15 October to clarify the application issue on testing compliance at the end of the reporting period.]

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 (HK Int 5)

At its September meeting, the Committee noted that a Disclosure Initiative Advisory Panel member raised a concern about the interaction between paragraph 72A of Amendments to HKAS 1 and the conclusion of HK Int 5. Two Committee members shared their views on inconsistencies that may arise depending on how contractual rights are considered when interpreting paragraph 72A.

At this meeting, the Committee noted that SSD staff had since highlighted the Committee members' concerns on HK Int 5 to IASB staff.

SSD staff presented an additional proposed clarification, shared by a Committee member, to align HK Int 5 with the classification principle of a liability in paragraph 69(d) of the Amendments to HKAS 1 and address the

Committee members' concerns. After due consideration, all Committee members approved the proposed updates to HK Int 5.

[Post-meeting note: HK Int 5 (2020) was issued on 22 October 2020.]

8. Consultation Paper on Sustainability Reporting

The Committee members received a brief introduction to the IFRS Foundation Consultation Paper on Sustainability Reporting and its background. The Committee members welcomed the Consultation Paper and indicated support for the FRSC and SSD to engage proactively in the consultation going forward. The Committee noted that an Invitation to Comment on the Consultation Paper had been issued and SSD would update on the status of the project in due course.

9. Other business

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 1 December 2020.

There being no further business, the meeting closed at 12:30 p.m.

ERNEST LEE
CHAIR

25 November 2020