



Minutes of the 263rd meeting of the Financial Reporting Standards Committee held on Wednesday, 14 April 2021 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. Kathryn Ashley, HSBC  
Mr. Choy Kai Sing, Asia Metro Ltd and own-name practice  
Ms. Candy Fong, Foremost Advisers Ltd  
Mr. Park Kwok, HLB Hodgson Impey Cheng Limited  
Ms. Vincyy Lai, Jardine Matheson & Co., Limited  
Mr. Kenneth Lau, Crowe (HK) CPA Limited  
Ms. Susanna Lau, Securities and Futures Commission  
Mr. Joe Ng, Ernst & Young  
Mr. Ghee Peh, IEEFA  
Mr. Richard Poon, AIA Group  
Mr. Jim Tang, KPMG  
Ms. Lisa Zhang, PricewaterhouseCoopers

Staff in attendance: Ms. Cecilia Kwei, Director, Standard Setting  
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. William Wong, Stock Exchange of Hong Kong Limited  
Mr. Guochang Zhang, The University of Hong Kong

Action

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

The Committee approved the minutes of the 262nd meeting.

The Committee noted the developments outlined in the FRSC and SSD work program, minutes of Hong Kong Insurance Implementation Support Group (HKIISG) meeting on 3 February, and liaison log.

The Committee also noted SSD's analysis and proposed next steps on the four IC tentative agenda decisions.

**2. Mandatory Provident Fund (MPF) schemes' annual registration fee (ARF)**

The Committee received an update on the latest developments on the discussion of the accounting of the MPF scheme's ARF by the MPF trustees.

The Committee noted that a discussion had taken place among relevant Investment Fund Regulatory Advisory Panel (Panel) members and their firms' technical representatives, and that no consensus was reached on when the MPF trustees should recognise the ARF liability. The Committee noted that SSD staff subsequently had a discussion with a representative from the Hong Kong Trustees' Association, together with the chairperson

of the Panel. At that meeting it was agreed that determining any specific accounting treatment of the ARF would be discussed between the trustees and their auditors, and that this matter should be considered closed, with no further work to be performed. The conclusion of this matter was communicated to the Panel and no concerns have been raised.

The Committee acknowledged that the MPF Schemes (Amendment) Ordinance is not explicit on who the obligor for the payment of the ARF is, and thus when the corresponding obligation is established (i.e. what the triggering event for such payment is). The Committee considered that these are legal questions and that it is a matter of the auditors gathering sufficient appropriate audit evidence to determine what the appropriate accounting treatment is.

The Committee agreed not to take further action and not to publish any guidance at this stage given that it is a matter of the auditors gathering sufficient appropriate audit evidence. The Committee asked the SSD staff to monitor whether diversity in practice arises in accounting for the ARF liability going forward, and at that point to further consider any additional steps.

SSD

### **3. Accounting for separately acquired research and development costs**

The Committee received an overview of a practical issue related to the capitalisation of in-process research and development (IPR&D) expenditure, and considered the SSD staff's proposed next steps.

The Committee was informed that there appears to be diversity in practice regarding whether IPR&D that is separately acquired should be capitalised. The Committee noted that this matter has become more prominent recently as a result of increasing initial public offering activities among pharmaceutical and biological companies in Hong Kong, and the change in the definition of a business under HKFRS 3 *Business Combinations* (which has resulted in more instances of asset acquisition accounting).

Committee members shared their observations and views on this issue and relevant HKAS 38 *Intangible Assets* requirements. Some members considered that the wide range of structures for R&D arrangements may not lend itself to simple and helpful guidance, while others noted that it may be possible to narrow down the issue to specific aspects and prepare useful materials. As such, the Committee asked the SSD staff to further explore the underlying issues through communication with preparers and relevant practitioners, and in particular to gather more information on commonly seen fact patterns and issues, to inform the Committee in its consideration of the next steps.

SSD

### **4. Request for Information (RFI) on the IASB's Third Agenda Consultation**

SSD staff provided an update on the IASB's latest developments including issuance of the RFI and the Institute's issuance of its related Invitation to Comment. The Committee reaffirmed its previous decision at the 22 February 2021 meeting that this is not a high priority project, and given this the Committee agreed with the SSD staff recommendation not to host any roundtable discussions or other outreach activities (beyond the Institute's Invitation to Comment) on the RFI apart from gathering views from members of the working group to be set up (see below).

The Committee also agreed with the SSD staff recommendation to set up a limited-life working group for the project (Working Group), with the sole objective to provide support to the Committee in assessing whether – and if so how – to respond to the RFI. The Working Group’s recommendations will be used to inform subsequent Committee deliberations on the project. The Committee had no further comments on the RFI.

5. **IASB Request for Information Post-implementation Review IFRS 10, IFRS 11 and IFRS 12**

The Committee received an update on additional feedback received from SSD staff’s outreach activities since the 22 February Committee meeting, which included comment letters received and the following meetings and discussions (meeting summaries will be posted on the Institute’s website in due course):

- meeting with the Small and Medium Practitioners Committee Working Group on Technical Issues;
- discussion with the Institute’s Quality Assurance Department on the review findings; and
- public roundtable discussion with IASB representatives and local participants (including practitioners, preparers and investors).

The Committee also considered the SSD staff’s preliminary views and comments to be incorporated into the Institute’s submission, and provided drafting suggestions. SSD staff will prepare the Institute’s submission and circulate that submission to the Committee for comments and approval out-of-session.

SSD

[Post-meeting note: The Committee approved the submission on 4 May 2021, and the comment letter was submitted to IASB on 10 May 2021].

6. **IASB Discussion Paper Business Combinations under Common Control (DP)**

The Committee was presented with an education session on the DP and an update on the feedback received to date from SSD staff’s outreach activities, including meetings with the Institute’s Business Combinations and Reporting Entity Advisory Panel, and the Investment Circular Reporting Sub-Committee (meeting summaries will be posted on the Institute’s website in due course).

The Committee considered and provided comments on the proposals in the DP. The Committee also received an update on the SSD staff’s next steps with regard to upcoming outreach activities and the timeline for drafting the Institute’s submission on the DP.

SSD staff will provide an update on additional stakeholder feedback and present SSD staff’s preliminary views for the Committee’s consideration at its next meeting.

SSD

7. **Other business**

**Educational guidance on the accounting for the contractual service margin**

The Committee was updated on the draft education guidance on the accounting for the contractual service margin under HKFRS 17 *Insurance Contracts*. The Committee noted that SSD staff had sought input on the draft presented at the November 2020 Committee meeting from local

accounting practitioners and the HKIISG, and that their comments had been considered in the latest draft. The latest draft was also shared with IASB staff for comments, and the SSD staff will take those comments into consideration during finalisation and circulate the draft to the Committee for approval in due course.

SSD

[Post-meeting note: The Committee approved the educational guidance on 5 May 2021, and the educational guidance was published on 7 May 2021].

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 June 2021.

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

ERNEST LEE  
CHAIR

25 May 2021