



Our Ref.: C/FRSC

Sent electronically through the IFRS Website (www.ifrs.org)

16 November 2021

Sue Lloyd
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sue,

**Tentative agenda decision – Demand Deposits with Restrictions on Use
(IAS 7 Statement of Cash Flows)**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our views on this tentative agenda decision (TAD).

The HKICPA and its respondents agree with the conclusion in the TAD with respect to the specific fact pattern in the submission. However, our respondents are concerned about the potential implications of the following principle introduced in the TAD:

“The Committee concluded that restrictions on use of a demand deposit arising from a contract with a third party do not result in the deposit no longer being cash, unless those restrictions change the nature of the deposit in a way that it would no longer meet the definition of cash in IAS 7.”

In particular, our respondents questioned whether, and if so, how the above principle applies to similar fact patterns in the real estate industry and to entities holding client money, which are prevalent in Hong Kong and Mainland China. For example,

- a) In Mainland China, pursuant to local regulatory requirements, property developers are required to place proceeds from pre-sale of properties to designated bank accounts, which can only be withdrawn to settle construction costs of the associated property projects before reaching specific completion milestones. Each withdrawal needs to be supported by invoices from contractors.
- b) In Hong Kong, proceeds from pre-sale of properties are placed in stakeholders' accounts under the custodian of lawyers. Similarly, funding in the stakeholders' accounts can only be used for settling construction costs of the associated property projects before reaching specific completion milestones.
- c) Securities brokers hold client money in segregated bank accounts and the use of such client money is subject to laws and regulations.

Our respondents noted that a lot of the restrictions on the entities' ability to access the deposits are not necessarily imposed by contracts but by laws and regulations, and therefore questioned whether and how the effect of laws and regulations would change the nature of the deposits applying the above principle in the TAD. Our respondents also questioned whether the conclusion would differ simply because the related contracts have or have not incorporated the requirements of the laws and regulations.



We acknowledge our respondents' concerns and consider that the IASB should further analyse the interplay between laws and regulations and contractual terms. In particular, we note that such question also arises in other financial reporting areas, e.g. classification of financial instruments as liabilities or equity which the IASB is trying to address as part of its *Financial Instruments with Characteristics of Equity* (FICE) project. In this regard, we recommend that the IC:

- a) consider carefully the timing of finalising the TAD and the exposure draft (ED) of the FICE project¹ given that the outcomes of both the TAD (once finalised as an agenda decision) and the ED could have potential implications on how entities should consider the interaction between laws and regulations and contractual terms; and
- b) provide guidance on how the principle in the TAD would apply to arrangements where restrictions on the use of deposits are imposed by laws and regulations, if the IC were to finalise the TAD before the publication of the FICE ED.

Work undertaken by HKICPA in forming its views:

In response to this TAD, the HKICPA:

- a) issued an Invitation to Comment on the TAD to its members and other stakeholders;
- b) sought input from its Disclosure Initiative Advisory Panel and Financial Instruments Advisory Panel, which are mainly comprised of technical and industry experts from accounting firms; and
- c) developed its views through its Financial Reporting Standards Committee, which comprises academics, preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

If you have any questions regarding the matters raised in this letter, please contact me (ceciliakwei@hki CPA.org.hk) or Katherine Leung (katherineleung@hki CPA.org.hk), Associate Director of the Standard Setting Department.

Sincerely,

A handwritten signature in cursive script that reads 'Cecilia Kwei'.

Cecilia Kwei
Director, Standard Setting Department

¹ The IASB has not yet decided on the timeline for the ED of the FICE project according to its work plan as of 16 November 2021.