



Minutes of the 249th meeting of the Financial Reporting Standards Committee held on Tuesday, 16 April 2019 at 8:30 a.m. in the Board Room of the Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

- 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
  - 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 (attended items 1 to 6 only)
  - Mr. Ghee Peh, Jefferies
  - Mr. Gary Poon, Poon & Co. (attended items 1 to 5 only)
  - Mr. Simon Riley, BDO Limited (attended items 1 and 2 only)
  - Mr. Jim Tang, KPMG
  - Mr. Guochang Zhang, The University of Hong Kong
- Staff in attendance:
- Ms. Christina Ng, Director, Standard Setting
  - 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
  - Ms. Kam Leung, 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. Ramil Clemena, BlackRock Asset Management North Asia Ltd
  - Mr. James Fawls, HSBC

Action

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

The Committee approved and the Chair signed the minutes of the 248th meeting.

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

The Committee also noted that at the March 2019 IFRS Interpretations Committee (IC) meeting the IC tentatively decided not to add the following four items to its standard-setting agenda and invited comment on these four tentative agenda decisions (TAD) by 15 May 2019:

- (a) Effect of a Potential Discount on Plan Classification
- (b) Costs to Fulfil a Contract
- (c) Subsurface Rights
- (d) Holdings of Cryptocurrencies

The Committee considered SSD's analysis of the TAD and agreed with SSD's recommendation that no further action should be undertaken by SSD or the Committee on TAD (a)-(c).

For TAD (d), SSD provided the Committee with a summary of feedback from the FRSC's Financial Instruments Advisory Panel (FIAP) and SSD's initial analysis and recommendations.

Committee members shared their observations about the level of cryptocurrency transactions in Hong Kong and noted that few companies have significant cryptocurrency holdings. Some Committee members agreed with the analysis and conclusions in the TAD. However, it was noted that IAS 38 *Intangible Assets* was developed long before the evolution of cryptocurrencies and was not designed with transactions that involve cryptocurrencies in mind. Some Committee members observed some diversity in practice in how entities currently account for cryptocurrencies.

SSD proposed to discuss the Committee's initial feedback with the FIAP. SSD will update the Committee about the recommendations from FIAP and ask the FRSC to consider what further action should be taken in relation to TAD (d) via email or at the next FRSC meeting.

SSD & FIAP

## 2. **Goodwill and impairment**

The Committee took stock of its discussions on goodwill and impairment to date and considered a research paper prepared by SSD outlining some initial literature research on the nature of goodwill. The research paper explored the theoretical discussion behind the nature of goodwill and considered whether goodwill is currently being accounted for in a theoretically-appropriate and cost-beneficial manner.

The Committee considered that a careful study of both the theoretical and practical considerations are necessary when assessing an appropriate method for subsequent accounting for goodwill and noted that both the amortisation plus impairment and impairment-only methods have their respective pros and cons.

The Committee noted SSD's availability to perform further research on the project. Consequently, the Committee supported SSD to undertake a joint project with the staff of the Accounting Standards Board of Japan on research to better understand the nature of goodwill and explore whether there is a conceptual argument for amortisation of goodwill, rather than it just providing a practical relief. The Committee noted that the objective of the staff research would be to encourage further debate locally and globally about the nature of goodwill by developing staff papers which could be used in stakeholder outreach. SSD plan to reach out to different stakeholders to understand goodwill from different perspectives.

SSD

## 3. **Better Communication in Financial Reporting**

The Committee received an update on the projects in the IASB's Better Communication in Financial Reporting initiative. In particular, the Committee considered the priority of the following two projects.

### **Disclosure Initiative—Accounting Policies**

The Committee received an overview of the IASB's Accounting Policies project and noted that the IASB has tentatively decided to amend paragraphs 117-124 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policies rather than their significant accounting policies and amend the IFRS Practice Statement 2 *Making Materiality Judgements* (Materiality Practice Statement) to include guidance and examples on the application of materiality judgements when preparing accounting policy disclosures.

The Committee noted that the Accounting Policies project involves judgement in preparing accounting policy disclosures which could impact the quality of disclosures by a wide range of companies in Hong Kong. The Committee also acknowledged that accounting policy disclosures is an area where improvements could be made in Hong Kong and it is a difficult area for regulators to enforce. Therefore, the Committee agreed that it is a high priority project.

At its December 2017 meeting, the Committee decided that the Materiality Practice Statement should be considered for issuance holistically with other materiality related projects when they are completed. The Accounting Policies project is the last of IASB's planned materiality related projects. Consequently, the Committee agreed to discuss whether to publish the equivalent Materiality Practice Statement in Hong Kong before the Accounting Policies project is completed in order to be in a position to be able to publish the updated Materiality Practice Statement when it is issued by the IASB. The Committee noted that it will also discuss possible concurrent activities to enhance awareness of the Materiality Practice Statement, if issued, and the importance of good disclosures.

#### Management Commentary

The Committee received an overview of the IASB's Management Commentary Project, which aims to revise and update IFRS Practice Statement 1 *Management Commentary* (Management Commentary Practice Statement) that was issued in 2010, to:

- address relevant developments to IFRS Standards and other narrative reporting initiatives;
- address gaps in existing practice, for example challenges in reporting forward-looking information, inconsistent reporting on business models, and insufficient long-term reporting on strategies; and
- support reporting of a broader range of resources and relationships.

The Committee also received an overview of the existing management commentary/business review requirements in Hong Kong and a comparison between these local requirements and the Management Commentary Practice Statement.

In addition, the Committee received an update of HKICPA's past communication to the IASB during development of the Management Commentary Practice Statement, which stated the Committee's view that management commentary requirements should be set by local jurisdictions. The Committee agreed that the Management Commentary project is a low priority project based on the Committee's previously stated view. The Committee also noted that the IASB's project is in its early stages and the nature of possible updates and benefits is uncertain, and also that any additional best practice guidance in Hong Kong would only be successful if supported by regulators. The Committee also agreed that any requirements for management commentary should be non-binding.

#### **4. Strategic Planning**

At its February 2019 meeting, the Committee reflected on the 2018 activities against its 3-year strategic plan (2017-2019) and agreed to continue with the direction in the strategic plan in 2019 and reassess the plan in 2020. At this meeting the Committee considered the detailed 2019-2021 plans for those agreed high priority projects in 2018. The Committee agreed with the staff proposed direction for 2019-2021 for the following high priority projects:

- Business Combinations Under Common Control (BCUCC)

- Primary Financial Statements
- Disclosure Initiative
- Financial Instruments with Characteristics of Equity
- Conceptual Framework
- Goodwill and Impairment
- HKFRS 9 *Financial Instruments*
- HKFRS 15 *Revenue from Contracts with Customers*
- HKFRS 16 *Leases*
- HKFRS 17 *Insurance Contracts*
- PIR IFRS 13 *Fair Value Measurements* (to be closed)
- SME-FRF/FRS

In addition to the above projects, the Committee also discussed the following projects that were added to its work program in 2018:

- Cryptocurrencies: The Committee noted that it will continue to monitor IASB developments and consider how to progress.
- The New Hong Kong Two-tiered Profits Tax Regime project: The Committee agreed to close the project if no new issues arise by the end of December 2019.

The Committee also considered the priority of the new IASB projects and agreed on the following three focus areas for 2019:

(a) Implementation projects (to address new issues, enhance understanding and monitor impact)

- HKFRS 9
- HKFRS 15
- HKFRS 16
- HKFRS 17
- PIR of HKICPA's SME Standard

(b) Research and stakeholder outreach (to drive global discussions or inform FRSC views)

- BCUCC
- Primary Financial Statements
- Goodwill and Impairment
- IBOR Reform and its effects on financial reporting

(c) IASB active projects (to actively monitor and respond when necessary)

- Amendments to IFRS 17
- Disclosure Initiative—Accounting Policies
- Other short-term projects (proposed amendments to IAS 12 *Income Taxes* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)
- Comprehensive Review of *IFRS for SME Standard*
- Rate-regulated Activities
- Financial Instruments with Characteristics of Equity

The Committee noted that based on recent observations, in 2019 SSD foresee more questions/challenges to arise from the late implementation of major new standards that are now effective. Therefore, the Committee agreed that SSD should focus its resources to first respond to:

- addressing new issues arising from major new standards;
- completing the PIR of HKICPA's SME Standard; and

- continuing to drive global discussions on BCUCC and completing the project on BCUCC/Accounting Guideline 5 *Merger Accounting for Common Control Combinations*.

## 5. Revenue

### Development of additional guidance on recognition of IPO sponsor fee income

At its February 2019 meeting, the Committee noted that the Q&As it had recently issued on the recognition of IPO sponsor fee income (the 'FAQ') had generally been well received. Committee members agreed to issue illustrative examples to elaborate some of the areas in the FAQ.

At this meeting the Committee received an update on the status of development of this further guidance. The Committee agreed that the staff will first focus on developing examples that illustrate:

- how the existence of a contractual right to payment for performance completed to date, if the contract is terminated, might affect when revenue is recognised;
- how variable consideration is reassessed over the contract and how recognition of revenue would be affected by uncertainties related to the variable consideration (for example a price concession offered to a sponsor if the IPO is aborted); and
- how revenue would be recognised applying the principles in HKFRS 15 to the two scenarios discussed in the published FAQ.

The Committee agreed that SSD should also:

- develop guidance to highlight the IASB's rationale for development of the over time revenue recognition criteria in HKFRS 15.35(c) to respond to concerns raised by practitioners that the criteria appears to be overly stringent; and
- seek feedback from stakeholders, especially small and medium practitioners, on the need for any further guidance.

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SSD will circulate the illustrative examples to the Revenue Recognition Advisory Panel (RRAP) and the Committee and, following due process, consider if any areas require discussion with the IASB staff.

The Committee noted and agreed that it was important that stakeholders are aware that this additional illustrative examples would not provide new guidance, nor change anything that was said in the FAQ that was published in February 2019, and accordingly, companies should not delay their considerations of the FAQ.

### IFRS IC agenda decision on over time transfer of constructed goods

The Committee noted that, in November 2018, the IC discussed a request about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development. In the request, the developer recognises revenue for sales of individual units over time applying IFRS 15. The IC concluded that, in the specific fact pattern provided in the request, the developer does not have a qualifying asset and does not capitalise borrowing costs.

At its February 2019 meeting, the Committee noted that the RRAP discussed concerns that the IC's tentative agenda decision might impact the current practice of capitalising borrowing costs on land use rights and the associated development in Mainland China and suggested submitting

a comment letter. The Committee noted that there was insufficient time for full deliberation before the comment deadline and had agreed out of session that the comment letter should be submitted on behalf of the stakeholders, rather than as comments from the Institute.

At this meeting SSD updated the Committee that:

- the IC had agreed to finalise the agenda decision at the March IC meeting, but further emphasise that the IC's conclusions only apply to the specific fact pattern in the request; and
- the IC staff will develop educational materials on the interaction between IFRS 15 and IAS 23 *Borrowing Costs*.

Committee members observed that the IC's conclusions are based on a specific fact pattern, and do not address the fact pattern observed in Mainland China. Consequently, the Committee agreed that no further action should be taken by the Committee and the RRAP.

## **6. Cost considered in assessing whether a contract is onerous**

Further to its November 2018 meeting, the Committee received an update on the IASB's exposure draft *Onerous Contracts – Costs of Fulfilling a Contract 2018/02* (ED). The Committee also received a summary of feedback from local stakeholders and practitioners on the proposed amendments in the ED. Most respondents supported the proposed amendments, which aim to clarify the costs of fulfilling a contract in assessing whether a contract is onerous under IAS 37. One respondent recommended that the IASB clarifies the meaning of 'directly related costs' and how the term relates to other terminologies such as 'direct costs' and 'directly attributable costs; that are used in other IFRS standards. Another respondent noted that questions also arise about the meaning of 'economic benefits' in the definition of an onerous contract and recommended that the IASB clarifies this. Practitioners noted that most companies in Hong Kong currently apply the incremental cost approach, which would mean a change in practice for most companies in Hong Kong if the proposals in the ED were to be finalised.

Overall, the Committee generally supported the amendments in the ED. The Committee considered SSD staff's draft submission and made a few further suggestions for how the IASB might clarify the costs that relate directly to a contract, including clarifying whether allocations of costs under the proposed paragraph 68A(c) are based on an entity operating at normal capacity as referred to in paragraph 13 of IAS 2 *Inventories*. The Committee also raised questions about the meaning of 'economic benefits' in the definition of an onerous contract in IAS 37 and how widely it should be interpreted, for example, whether economic benefits as a result of securing additional future contracts should be included. The Committee agreed that the IASB should consider clarifying what constitutes 'economic benefits' either in this project or in the IASB's wider project to review IAS 37.

The SSD staff will incorporate the Committee's recommendations from the meeting in the next draft submission and it will be approved out of session.

SSD

[Post-meeting note: HKICPA's submission was sent to the IASB on 24 April 2019.]

## 7. Insurance Contracts

The Committee received an update on the IASB's project *Amendments to IFRS 17 Insurance Contracts*, and agreed that it is a high-priority project. In addition, the Committee noted that:

- Overall, SSD welcome and support the proposed amendments by the IASB.
- Two out of three<sup>1</sup> of the issues the Committee raised to IASB in October 2018 are reflected in the proposed amendments.
- Feedback from six members of the Hong Kong Insurance Implementation Support Group (HKIISG) (five preparers from industry and one from a consulting firm) indicate that there is general support for the proposed amendments, although one preparer noted that one of the proposed amendments would disrupt implementation.
- Once the IASB's exposure draft on Amendments to IFRS 17 is issued, SSD proposes to commence a public consultation on the IASB's proposals. Hong Kong insurers will be encouraged to respond to the HKICPA's and/or the IASB's consultation documents. SSD will arrange roundtable forums with IASB presence for stakeholders to voice their views.

The Committee also received an update on the following domestic and international meetings in March and April on IFRS 17:

### *Domestic*

- Meeting between the FRSC Chair, SSD Director, Chief Executive of the Hong Kong Federation of Insurers and Chief Executive Officer of the Insurance Authority. The purpose of the meeting was to consider strategic actions to assist small general insurers in the implementation of HKFRS/IFRS 17 and Risk Based Capital requirements.
- Meetings of the Institute's Insurance Regulatory Advisory Panel and the HKIISG.

### *International*

- Meetings of the International Forum of Accounting Standard Setters (IFASS) and the Accounting Standards Advisory Forum, which discussed the IASB's proposed amendments to IFRS 17.

Finally, the Committee noted that in July 2019, SSD will:

- Host a half-day discussion forum in July with representatives from international standard setters as speakers, including Canada and Europe. This forum will focus on international developments, the IFRS endorsement process in other jurisdictions, and enable Hong Kong's insurers with multinational operations to network and ask questions. The forum will also be attended by IASB insurance project staff and the IASB Board member that is the Chair of the Transition Resource Group for IFRS 17.
- Launch an extensive IFRS 17 training programme targeted primarily to Hong Kong's smaller insurers, with a full-day training workshop to be conducted at least once a month.

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<sup>1</sup> In October 2018, the FRSC sent a technical issues paper for the IASB to consider. The paper outlined the top three technical issues observed during implementation as a result of discussions of the Hong Kong Insurance Implementation Support Group. FRSC believed that there is reasonable technical justification for changes to be considered by the IASB for the issues contained in the paper.

Due to the overrun of the meeting, the Committee decided to discuss the classification of liabilities project at its May meeting. There being no further business, the meeting closed at 12:45 p.m.

21 May 2019

ERNEST LEE  
CHAIR