



Minutes of the 273rd meeting of the Financial Reporting Standards Committee held on Tuesday, 13 September 2022 at 8:30 a.m. via videoconference.

Members present: Mr. Gary Stevenson (Chairman), RSM Hong Kong
Mr. Jim Tang (Deputy Chairman), KPMG
Ms. Kathryn Ashley, HSBC
Ms. Fanny Hsiang, BDO Limited
Mr. Mateusz Lasik, Deloitte Touche Tohmatsu
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. William Wong, Stock Exchange of Hong Kong Limited
Ms. Lisa Zhang, PricewaterhouseCoopers

Staff in attendance: Ms. Cecilia Kwei, Director, Standard Setting
Ms. Eky Liu, Deputy Director, Standard Setting
Mr. George Au, Associate Director, Standard Setting
Ms. Carrie Lau, Associate Director, Standard Setting
Ms. Kennis Lee, Associate Director, Standard Setting
Ms. Katherine Leung, Associate Director, Standard Setting
Mr. Anthony Wong, Associate Director, Standard Setting

Apologies: Ms. Vincyy Lai, Jardine Matheson & Co., Limited

Action

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

The Committee approved the minutes of the 272nd meeting.

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

The Committee also noted the IC finalised the following three agenda decisions in July 2022:

- Negative Low Emission Vehicle Credits (*IAS 37 Provisions, Contingent Liabilities and Contingent Assets*)
- Special Purpose Acquisition Companies: Classification of Public Shares as Financial Liabilities or Equity (*IAS 32 Financial Instruments: Presentation*)
- Transfer of Insurance Coverage under a Group of Annuity Contracts (*IFRS 17 Insurance Contracts*)

2. **Setting up of Hong Kong Sustainability Standard Setting function at the HKICPA**

The Committee received an update on the Institute's role in setting sustainability standards in Hong Kong and the progress of setting up the sustainability standard setting function at the Institute since the February Committee meeting.

The Committee noted that the Financial Services and the Treasury Bureau confirmed, in its correspondence with the Institute in March, that the

existing section 18A(1) of the Professional Accountants Ordinance (Cap. 50) should already provide the statutory authority for the Institute to issue sustainability standards for CPAs in Hong Kong. On the back of that confirmation, the SSD has been working to set up a sustainability reporting work stream within the Institute and undertaking the tasks of the official local sustainability standard setter.

The Committee considered the SSD's action plan for setting up the sustainability standard setting function at the Institute and provided comments. SSD staff will present a status update including SSD's action plan and the views obtained from the Committee at the meeting to ExCom and Council at their respective October meetings for consideration and endorsement.

3. Capitalisation of in-process research and development expenditure

The Committee received an update on the accounting issue on separately acquired in-process research and development (IPR&D) costs since the issue was last discussed in September 2021, and considered SSD staff's proposed next steps.

The Committee noted that subsequent to its September 2021 meeting, SSD staff performed further outreach including discussion with the FRSC working group and noted the following:

- A common confusion is how paragraph 21(a) of HKAS 38 *Intangible Assets* interacts with HKAS 38.25 when applying to separately acquired IPR&D. While HKAS 38.25 specifies how the principle in HKAS 38.21 is to be applied to a separately acquired intangible asset, some stakeholders believe that the probability criterion in HKAS 38.21(a) could be applied independently to a separately acquired IPR&D and that it prevails over HKAS 38.25. A common reason for this is that stakeholders are not comfortable with the difference in recognition threshold between separately acquired and internally generated IPR&D.
- Another common question is whether HKAS 38.25 should be applied to separately acquired IPR&D that are still in the early stages, e.g. those that have only passed phase 1 clinical trials or those that have not yet passed any clinical trials, considering the significant uncertainty regarding the probability of success of such early stage projects.

The Committee reconfirmed its previous position as discussed in September 2021 and again noted that the recognition criteria in HKAS 38 are clear for separately acquired intangible assets. HKAS 38.25 specifies how the principle in HKAS 38.21 is to be applied to a separately acquired intangible asset, i.e. the probability criterion in HKAS 38.21(a) is always considered to be satisfied for separately acquired intangible assets. HKAS 38.BC 27 explained that the price an entity pays to acquire separately an intangible asset normally reflects expectations about the probability that the expected future economic benefits associated with the intangible asset will flow to the entity. In other words, the effect of probability is reflected in the cost of the intangible asset. Accordingly, HKAS 38.25 applies to all separately acquired IPR&D, irrespective of the phase of clinical trials of the IPR&D.

The Committee noted that this conclusion is consistent with previous conversation with IASB staff and agreed to close the case at the Committee level.

4. **Consider priority of the IASB project *Post-implementation Review of IFRS 9 – Impairment***

The Committee received an update on the IASB project *Post-implementation Review of IFRS 9 – Impairment* and agreed that it should be a high priority project for the Institute considering that it relates to the impairment requirements for financial instruments that affect a wide range of companies in Hong Kong.

The Committee agreed with SSD's project plan, which includes responding to the forthcoming IASB's Request for Information and performing outreach activities to seek stakeholders' views.

5. **Consider topics for 2022 Annual Accounting Update Conference**

The Committee noted that the 2022 Annual Accounting Update Conference is scheduled to take place on 19 November 2022 as a webinar. The Committee agreed with the SSD's recommendation to cover various popular and upcoming topics including standards that will become effective in 2023 and 2024, application issues of HKFRSs 9, 15 and 16, and the latest development in sustainability reporting.

6. **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 25 October 2022.

There being no further business, the meeting closed at 9:45 a.m.

GARY STEVENSON
CHAIR

17 October 2022