Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Minutes of the 245th meeting of the Financial Reporting Standards Committee held on Tuesday, 4 September 2018 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:
Ms. Shelley So (Chairman), PricewaterhouseCoopers
Mr. Ernest Lee (Deputy Chairman), Deloitte Touche Tohmatsu
Mr. Ramil Clemena, BlackRock Asset Management North Asia Ltd
Mr. James Fawls, HSBC
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
Mr. Steve Ong, Stock Exchange of Hong Kong Limited (Dial-in)
Mr. Gary Poon, Poon & Co.
Mr. Simon Riley, BDO Limited
Mr. Gary Stevenson, RSM Hong Kong Ms. Sanel Tomlinson, KPMG
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Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance:
Ms. Christina Ng, Director, Standard Setting
Ms. Winnie Chan, 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
Ms. Daisy Xia, Manager, Standard Setting

Action

1. Minutes, work program and liaison log

The Committee agreed to approve the minutes of the 244th meeting out-of-session, pending a few clarifications. — SSD

[Post-meeting notes: The 244th minutes was approved on 12 September 2018.]

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

2. HKFRS 16 *Leases*

Further to February 2018 FRSC meeting, the Committee noted that the Leases Advisory Panel's discussions on the accounting for government rents and rates under HKFRS 16 is still ongoing. A comprehensive analysis of leases implementation issues will be presented at the next FRSC meeting. — SSD

3. HKFRS 17 *Insurance Contracts*

The Committee received an update of SSD's activities to date and forthcoming plans.

Hong Kong Insurance Implementation Support Group (HKIISG)
The Committee noted that HKIISG had met six times since it was formally established in late February and received eight submissions

from local stakeholders.

International collaboration and liaison
The Committee noted that, at the upcoming October IFASS meeting, staff of the Accounting Standards Board of Canada and HKICPA will jointly present:

- The status of IFRS 17 endorsement globally;
- Key findings from two recent KPMG and Deloitte surveys on the readiness of insurers in implementing IFRS 17 by its effective date;
- Key implementation questions discussed in Hong Kong and Canada;
- IASB's remaining activities, including its Transition Resource Group discussions; and
- Canada and Hong Kong staff observations, which including local implementation efforts and resource needs to meet an effective date of 1 January 2021.

[Post-meeting note: Staff of the Korea Accounting Standards Board also participated in the joint presentation and shared feedback from the Korean industry.]

The Committee also noted that SSD continues to liaise with standard-setters from Australia, Canada, Germany, Korea and the United Kingdom, and noted the implementation developments in these jurisdictions.

IFRS 17 in the context of reinsurance
Insurers will typically purchase reinsurance contracts to mitigate risk exposures arising from insurance contracts issued. IFRS 17 requires losses arising from an issued insurance contract issued to be recognised immediately in the profit or loss. In contrast, gains or losses arising from the corresponding reinsurance contract held are deferred and amortised over its coverage period.

This creates an accounting mismatch in the profit or loss upon initial recognition of insurance contracts issued and its corresponding reinsurance contracts held. The Committee noted that on 30 August, representatives of Australia, Canada, Germany, Hong Kong and UK standard-setters and EFRAG discussed and acknowledged this issue.

The Committee agreed that, in principle, the accounting mismatch should be reconsidered, and supported a proposal to jointly highlight and discuss this issue with the IASB.

[Post-meeting note: On 4 October, representatives of the bodies mentioned above met with IASB representatives to discuss this issue. IASB representatives noted the issue and proposed to add it to its list of implementation issues to be incorporated in a staff paper.]

Other matters
The Committee decided that HKICPA should write to the IASB, with input from HKIISG, to highlight the top technical IFRS 17 issues observed in Hong Kong and recommend proposed solutions for the IASB to consider.

[Post-meeting note: On 15 October, a draft issues paper, prepared through the HKIISG, the Institute's Insurance Regulatory Advisory Panel and FRSC, was sent to the IASB's insurance project staff in time for discussion at the IASB Board meeting in October. A final issues paper is proposed to be published in November.]

The Committee noted that SSD has started planning for an IFRS 17 forum to take place in the first half of 2019.

4. 2018 Annual Accounting Update

The Committee provided recommendations for the 2018 Annual Accounting Update conference, scheduled to take place on 17 November 2018.

5. Goodwill and impairment

The Committee considered FRSC member Professor Zhang's academic views on the nature of goodwill. In particular, purchased goodwill represents the expected value (e.g. synergies from combination or asset benefits that are not recognised on the balance sheet) that exists on acquisition date. Some Committee members considered that purchased goodwill is a residual amount and it is not clear what that amount represents. Theoretically, the value of purchased goodwill depletes over time as it is utilised to generate future economic benefits for the entity in periods subsequent to the business combination—this is akin to depreciation of fixed assets. If purchased goodwill is utilised and maintained (e.g. an entity spends additional cost to continue benefiting from the unrecognised intangibles or to develop the expected synergies), internally-generated intangible assets or other forms of investments/interests could be created. In summary, theoretically purchased goodwill has a declining value and additional assets/benefits arising from the utilisation of goodwill are created and may increase in value over time.

The Committee considered that it is difficult to consider the accounting for goodwill without fully appreciating its composition. and without undertaking further analysis of and a fresh look at goodwill. Given the IASB's developments as at September 2018, the Committee suggested SSD to share Professor Zhang's analysis with other Standard-setters and the IASB and explore how it could contribute to the IASB's project at this point in time. SSD

6. Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME Standard)

Further to April 2018 FRSC meeting, the Committee considered and provided comments on a draft Request for Information for the post-implementation review of the SME Standard. The Committee noted that stakeholder outreach with SMPC Technical Working Group and SME preparers/users will be arranged in due course to obtain feedback. SSD

The Committee noted that in March 2006, Council had considered whether a due process for the SME Standard that is separate from the HKFRS due process was necessary. The *Preface to Hong Kong Financial Reporting Standards* (Preface) was revised in October 2006 and reflected that a separate due process for setting the SME Standard would be considered. However, in October 2006, Council considered that there were no obvious benefits in establishing a new due process for setting the SME Standard because it is highly unlikely that a new and more effective due process could be developed. Council subsequently concluded that a separate due process and oversight was not necessary. The Committee was reminded that, at its April 2018 meeting, the Committee also formed a similar view—that the due process for HKFRS Standards is effective and robust enough for the SME Standard.

The Committee also noted that the Preface was not amended to reflect

Council's conclusions in October 2006. In addition, the Committee considered that apart from a timely post-implementation review of three to five years after effective date, other reasons for performing a review could be changes in regulatory or other reporting requirements that would influence the usefulness of financial reports. The Committee therefore decided to add a question on these trigger points for amending the SME Standard in its Request for Information. SSD

There being no further business, the meeting closed at 12:00 p.m.

SHELLEY SO
CHAIR

25 October 2018