



Minutes of the 246th meeting of the Financial Reporting Standards Committee held on Wednesday, 7 November 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
Ms. Candy Fong, Foremost Advisers Ltd
Ms. Susanna Lau, Securities and Futures Commission
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
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

Apologies: Mr. James Fawls, HSBC
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Ms. Cynthia Leung, Financial Reporting Council

Action

1. Minutes, work program and liaison log

The Committee approved and the Chair signed the minutes of the 245th meeting.

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

2. HKFRS 16 Leases

The Committee was informed of the Leases Advisory Panel discussions to date in relation to implementing or applying HKFRS 16. The major topics discussed by the Panel were the identification of a lease (in the case of energy saving contracts, medical equipment contracts and payments to government for land and other services), and the determination of an appropriate discount rate and lease term.

The Committee was also informed that, through the HKICPA's magazine *Aplus*, a staff article on determining an appropriate discount rate will be published and a staff article that discusses the determination of lease terms (which includes information on the withdrawal of HKICPA's HK-Int 4 *Determination of the Length of Lease Term in respect of Hong Kong Land Leases*) has been published.

The Committee noted the Panel spent more time discussing whether a

contract contains a lease or a provision of service in relation to payments to government for use of land (refer to item 6 of February 2018 FRSC meeting [minutes](#) for details). The Committee considered the concept of substance over form (i.e. what does the payment or contract faithfully represent) is particularly important in this regard and that HKFRS 16 provides sufficient guidance and discussion in the basis for conclusions. The Committee also considered that application of the standard requires judgment, entities need time to familiarise with and apply the new requirements and guidance, and the Institute needs to continue monitoring developments. The Committee also commented entities should have thorough documentation on the information used in exercising judgment.

3. **IASB Discussion Paper *Financial Instruments with Characteristics of Equity***

The Committee received an overview of the Discussion Paper (DP) and the feedback received from SSD's outreach activities.

The Committee noted the comments from Hong Kong preparers with listed debt instruments, banks and investors (refer to HKICPA website for meeting summaries).

Most Committee members are concerned that the DP may create new application issues because of new terminologies, which would not be a simplification of IAS 32. The Committee also considered the rationale supporting the proposed classification principles are not completely conceptually sound. In relation to disclosures, the Committee noted that stakeholders do not support the proposed additional information on attribution of total comprehensive income to equity instruments, but broadly support providing more information regarding the instruments issued.

Reflecting the stakeholders' feedback to date, the Committee proposed to recommend the IASB to restart the project with a fundamental review of the classification principles by incorporating the thinking in the *Conceptual Framework for Financial Reporting 2018*. In the interim, the IASB could increase the transparency of financial instruments by requiring additional disclosures. SSD will prepare a draft submission, based on the Committee's recommended direction, and present it at the next FRSC meeting for the Committee's consideration.

SSD

4. **Valuation**

The Committee noted that in July 2018 the International Valuation Standards Council (IVSC) issued an exposure draft proposing further revisions to the International Valuation Standards.

The Committee noted that the Financial Reporting Valuation Advisory Panel broadly agreed with the proposed revisions and considered the proposals are not inconsistent with IFRS and would not negatively impact the quality of financial reporting. Accordingly, the Committee decided not to respond to the exposure draft with reference to its policy (refer to item 3 of October 2016 FRSC meeting [minutes](#)).

Instead the Committee proposed that SSD staff share with IVSC staff the Panel member comments that suggest clarification and additional guidance/discussion in the revised IVS.

SSD

[Post-meeting note: Panel member drafting suggestions were

communicated to IVSC staff on 8 November via email.]

The Committee also noted that SSD was invited to attend a valuation roundtable jointly organised by IVSC and the Royal Institute of Chartered Surveyors on 1 November 2018. The meeting discussed the quality of valuations and the observed challenges in Hong Kong and the region. The Committee agrees that the valuation practice in Hong Kong needs to be strengthened by way of awareness/education and accreditation. The Committee noted that the Institute already offers ongoing training to members on the fundamentals of valuation. The Committee considered writing to the Institute's Council to highlight the challenges affecting the quality of valuations in financial reporting and to express support for the Institute to participate in ongoing dialogue and initiatives that improve the situation in Hong Kong.

5. **Other IASB projects**

The Committee received an update on the following IASB projects and agreed that they are high priority and with SSD's project plans:

- Classification of Liabilities as Current or Non-current;
- Lease Incentives;
- Costs Considered in Assessing whether a Contract is Onerous; and
- Fees in the '10 per cent' test for Derecognition.

The Committee also received an update on the following IASB projects and agreed that these projects would have low impact to Hong Kong.

- Property, Plant and Equipment: Proceeds before Intended Use;
- Taxation in Fair Value Measurements; and
- Subsidiary as a First-time Adopter.

HKICPA will issue a request for comment on forthcoming IASB consultation documents related to the above projects. The Committee plans to respond to projects that are high priority as they are likely to impact Hong Kong. The Committee does not plan to respond to projects that have low impact to Hong Kong unless it receives stakeholder comments that indicate otherwise.

SSD

6. **Insurance Contracts**

The Committee noted the following:

International collaboration and liaison in early October

At the International Forum of Accounting Standard Setters, the FRSC Chair and the staff of the Canadian and Korean standard-setters jointly presented and discussed the local implementation efforts and challenges, and staff observations on the IASB's remaining activities and effective date.

At a private meeting with IASB representatives, SSD, representatives of the Australia, Canada, Germany and UK standard-setters and EFRAG conveyed and discussed their concerns over an issue with reinsurance accounting under IFRS 17 *Insurance Contracts* (refer to item 3 of September 2018 FRSC meeting [minutes](#) for details of the issue).

Technical issues paper to IASB

The Committee was reminded that it agreed, out-of-session, to write to the IASB the areas of IFRS 17 that have technical justification for reconsideration. The Committee noted that a staff draft paper with the Committee's agreed issues to be highlighted was sent to IASB staff before the IASB October meeting and that the final version will be

published on the Institute's website.

The Committee also noted that in October, the IASB received an overview of main concerns and implementation challenges raised by stakeholders about IFRS 17 and undertook to consider possible amendments to IFRS 17 if they meet the criteria for amendment. The issues highlighted by HKICPA in its issues paper to the IASB were incorporated in the IASB's meeting papers for consideration.

[Post-meeting note: The [issues paper](#) was published on 15 November.]

Other activities

The Committee noted that SSD continues to work on pocket guides that target IFRS 17 topics of most significance in the Hong Kong industry with the help of Deloitte. The next guide is on contract boundary.

7. Implementation observations relating to HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*

FRSC member Gary Poon presented questions and implementation issues on HKFRS 9 and HKFRS 15 that were observed by members of the Small-medium Practice Committee (SMPC) Technical Working Group. The Committee requested that SSD and the respective FRSC Advisory Panels analyse the topics and recommend ways to address them.

The Committee recommended that the SMPC Technical Working Group also share its implementation findings on HKFRS 16 *Leases* as soon as possible so that the FRSC could consider how to address them in good time.

8. Update on International meetings

The Committee noted that the FRSC Chair and SSD attended the following International Conferences in London in October:

- Asia-Oceania Standard-Setters Group interim meeting;
- World Standard-Setters meeting;
- International Forum of Accounting Standard-Setters meeting; and
- Accounting Standards Advisory Forum.

At the IFASS meeting, SSD jointly presented the following projects with other National standard-setters:

Insurance Contracts

SSD jointly presented with the Canadian and Korean standard-setters regarding local implementation efforts, challenges and technical issues, and whether there is sufficient time remaining to implement by 1 January 2021.

Business Combinations under Common Control (BCUCC)

SSD and Italian accounting standard-setter jointly presented a paper on the application issues of predecessor method in Hong Kong and Italy. The objective of the session was to share the accounting practice for BCUCC and the challenges faced in each jurisdiction if the predecessor method is applied. The application issues presented were based on the feedback received from the Post Implementation Review of AG 5 *Merger Accounting for Common Control Combinations* and from the outreach activities conducted by the Italian standard-setter.

9. **Other Business**

The Committee noted that the Hong Kong Exchanges and Clearing Limited published consultations on backdoor Listing, continuing listing criteria and other rule amendments and that the Hong Kong Standard on Investment Circular Reporting Panel will deal with these consultations. The Committee agreed that, if necessary, the FRSC will provide input to the HKICPA submission prepared by the Panel.

There being no further business, the meeting closed at 12:15 p.m.

SHELLEY SO
CHAIR

27 November 2018