



Minutes of the 247th meeting of the Financial Reporting Standards Committee held on Tuesday, 11 December 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
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. Jim Tang, KPMG (on behalf of Sanel Tomlinson)

Staff in attendance: Ms. Christina Ng, Director, Standard Setting
Ms. Michelle Fisher, Deputy 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
Ms. Daisy Xia, Manager, Standard Setting

Apologies: Mr. Ramil Clemena, BlackRock Asset Management North Asia Ltd
Mr. James Fawls, HSBC
Ms. Candy Fong, Foremost Advisers Ltd
Mr. Gary Stevenson, RSM Hong Kong
Mr. Guochang Zhang, The University of Hong Kong

1. **Minutes, work program and liaison log**

The Committee approved and the Chair signed the minutes of the 246th meeting.

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

2. **IASB Discussion Paper (DP) Financial Instruments with Characteristics of Equity**

Further to its November 2018 meeting, the Committee received an update on comments from local stakeholders, including The Hong Kong Association of Banks and the staff of the Financial Reporting Council (refer to [HKICPA website](#) for meeting summaries and comment letters received), as well as the views of Asian-Oceanian Standard-Setters Group (AOSSG) members.

The Committee discussed the staff's draft submission and provided further input for the final submission, to be approved out-of-session.

[Post-meeting note: The submission on the DP was sent to the IASB on 8 January 2019. The AOSSG submission can be referred on [AOSSG website](#).]

Action

SSD

3. **Business Combinations under Common Control (BCUCC)**

The Committee received and considered the following update on the BCUCC project:

SSD's presentations and discussions at recent international meetings

The Committee noted the discussion outcomes and findings from SSD's presentations and discussions at the following international meetings:

- At the July ASAF meeting, SSD and staff of Organismo Italiano di Contabilità (the Italian accounting standard-setter) presented the findings of their joint investor survey that aimed at understanding how investors assess the underlying substance of BCUCC versus business combinations not under common control.
- At the October IFASS meeting, SSD and staff of the Italian accounting standard-setter jointly presented their findings on application issues using the predecessor method to account for BCUCC in Hong Kong and Italy.
- At the November annual AOSSG meeting, FRSC Chair and SSD presented a paper that explored the factors that should be considered in determining the measurement basis for BCUCC.

The presentation materials can be referred on the [HKICPA website](#).

SSD's follow-up work on Post-implementation Review (PIR) of AG 5 Merger Accounting for Common Control Combinations

The Committee noted the findings from the following SSD's follow-up work to the published HKICPA [Feedback Statement on the PIR of AG 5](#):

(a) Background research on the rationale on the scope of AG 5

SSD reviewed SSAP 27 *Accounting for Group Reconstructions*, past FRSC meeting papers and minutes in relation to the replacement of SSAP 27 by AG 5 and comment letters received on the HKICPA's ED *Accounting Guideline on Merger Accounting* issued in 2005. SSD found that there were no explicit explanations or rationale regarding the change in scope and criteria for applying merger accounting between SSAP 27 and AG 5.

(b) Outreach activities with preparers

In May and June, SSD carried out individual outreach activities with Hong Kong and mainland China preparers regarding fact patterns of BCUCC and preparers' views on how BCUCC should be reported. Key observations include:

- If the BCUCC is directed solely by the controlling party with the aim of streamlining group internal operations, it is unclear whether there is observable synergistic benefit to the reporting entity and, in that case, they believe there is merit in applying the predecessor method to account for the BCUCC. If the BCUCC is mainly directed by the reporting entity and the terms of the BCUCC are similar to a business combination that is not under common control, the current value approach would be more appropriate to reflect the synergy to the reporting entity as a result of the BCUCC.
- Some preparers expressed concern about the cost and usefulness of restating comparatives under the predecessor method. They believe preparers should be provided an accounting policy choice for prospective application.

In order to understand the views of other stakeholders, SSD's next SSD

steps are to reach out to financial reporting and/or listing regulators and investors and seek their views on the measurement method(s) and the comparative information of BCUCC.

IASB developments to date

The Committee noted that the IASB and members of its Accounting Standards Advisory Forum discussed the information needs of different primary users of the receiving entity (i.e. the reporting entity that receives the transferred entity) and the possible current value approaches to account for BCUCC. The discussions to date mainly focused on the needs of the non-controlling interests (NCI) of the reporting entity. No decisions have been made by the IASB.

The Committee also noted SSD's preliminary views on the IASB discussion.

A few members commented on the IASB discussion in relation to the information needs of primary users and the factors that should be considered in selecting the measurement method(s) for BCUCC. In order to provide input to the IASB's BCUCC project, the Committee planned to discuss at future meetings and form its views on the following aspects:

- What measurement method(s) should be applied to BCUCC;
- Under what circumstances should the method(s) be applied; and
- How to apply the measurement method(s).

4. Definition of a Business

The Committee noted that the IASB published *Definition of a Business* (amendments to IFRS 3 *Business Combinations*) in October 2018.

The Committee continued to have concerns over the optional concentration test because it may result in different accounting outcomes for economically similar transactions. Nevertheless, the Committee agreed with most of the amendments because it provides improved guidance on applying the definition of a business. Also taking into account the Institute's full convergence policy, on balance, the Committee approved the Hong Kong equivalent amendments to IFRS 3 but agreed to monitor if there is inconsistent application of the amendments. The Committee also agreed that considerable education on the amendments and monitoring of the application are necessary. In addition, the Committee agreed that its Business Combinations and Reporting Entity Advisory Panel should discuss the application of the amendments to various industries (e.g. real estate industry to identify changes to current practice (if any)).

SSD &
Panel

The Hong Kong equivalent amendments are expected to be issued in January 2019. Earlier application of these amendments is permitted, including in annual reporting periods beginning before 18 January 2019 (the date of issuance of these amendments). If an entity applies these amendments for an earlier period, it shall disclose that fact.

[Post-meeting note: The amendments were issued on 18 January 2019.]

5. Revenue recognition of sponsor fee income under HKFRS 15

The Committee noted that the following issues on revenue recognition of IPO sponsor fee income under HKFRS 15 *Revenue from Contracts with Customers* are causing difficulties in practice: (i) whether sponsor fee income should be recognised over time or at a point in time; and (ii) the appropriate method for measurement of progress for sponsorship service

if the corresponding revenue is recognised over time.

The sponsor industry informed HKICPA that IPO sponsor fees recognised upon completion of the individual milestones. HKFRS 15 requires revenue recognition at a point in time unless one or more of the criteria in HKFRS 15.35 are met. Many IPO sponsor contracts do not meet the criteria of HKFRS 15.35(a) (simultaneous consumption of benefits) and HKFRS 15.35(b) (creation or enhancement of assets controlled by customers). In analysing the appropriate method for revenue recognition, there have been concerns on the application of HKFRS 15.35(c).

The Committee agreed that these issues should be brought back to the Revenue Recognition Advisory Panel (RRAP) for discussion in light of new information regarding IPO sponsor arrangements had been received. Further input from the Securities Regulatory Advisory Panel on a common IPO sponsor fact pattern and legal advice on the enforceability of the right to payment under IPO sponsor contracts were requested for the issue to be better analysed. SSD proposed to publish a form of publication that explains the concepts of revenue recognition under HKFRS 15 when applied to IPO sponsor fees.

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[Post-meeting note: The RRAP meeting was held on 7 January 2019 and a FAQ was published on 21 February 2019.]

6. **Insurance Contracts**

When the Committee approved the issuance of the Hong Kong equivalent of IFRS 17 *Insurance Contracts* in [December 2017](#), it undertook to continually monitor and assess Hong Kong and international developments in order to objectively consider how to respond to implementation challenges and global developments.

The Committee noted the following SSD presentations and discussions at international meetings and a regulator forum:

- October 2018—HKICPA staff's paper to the IASB on the top three technical IFRS 17 issues for Hong Kong stakeholders;
- October 2018—HKICPA's joint presentation with the Canadian and Korean standard-setters at the International Forum of Accounting Standard Setters regarding local implementation efforts, challenges and technical issues, and whether there is sufficient time remaining to implement by 1 January 2021;
- November 2018—HKICPA staff's participation and sharing of technical IFRS 17 issues that are pertinent in Hong Kong at the AOSSG;
- November 2018—HKICPA staff's participation in a panel discussion organized by the Asia Pacific Financial Forum on IFRS 17; and
- December 2018—HKICPA's presentation at the Asian Forum of Insurance Regulators on the process of adopting HKFRS 17 and why it is needed; implementation support; issues so far; and what the latest international and domestic developments means for Hong Kong.

Reassessment of the adoption of HKFRS 17

The Committee took stock of HKFRS 17 developments to date, including those shared with the Committee in previous meetings. In particular, the Committee noted that in November 2018:

- The Hong Kong Federation of Insurers wrote to the IASB to request for a two-year deferral of the effective date of IFRS 17. The letter reiterated concerns for smaller insurers over the lack of specialist resources and IT, as well as the time pressure for both larger and smaller insurers due to the concurrent development of the new

- regulatory capital requirements in Hong Kong.
- The IASB tentatively decided to propose a one-year deferral of the effective date for IFRS 17 and extend the temporary exemption for insurers to apply IFRS 9 *Financial Instruments* to 2022.
- At the annual AOSSG meeting, IASB vice-chair, Sue Lloyd, commented that even though some amendments to IFRS 17 are likely, preparers should continue with implementation because any amendments would not change the fundamentals of the standard.

The Committee noted that, while implementation is underway for larger insurers, many smaller insurers are still in an early education phase about HKFRS 17 and accordingly have not made sufficient implementation progress for the Committee to reassess the effective date of HKFRS 17. In addition, the Committee considered that it is still too early to conclude on the endorsement outcomes of IFRS 17 in other jurisdictions. The Committee agreed to continue monitoring implementation.

The Committee considered ways to support smaller general insurers, which include more training, further HKICPA Pocket Summary that target HKFRS 17 topics that are most relevant to general insurers, and more experience sharing sessions by general insurers that are more advanced in implementation.

HKICPA Pocket Summary

The Committee noted the draft HKICPA Pocket Summary on Contract Boundary, with comments to be provided out-of-session.

[Post-meeting note: HKICPA Pocket Summary was issued on 22 January 2019.]

Hong Kong Insurance Implementation Support Group (HKIISG)

The Committee noted that HKIISG meetings to date have mainly discussed the IASB Transition Resource Group (TRG) meeting papers and local stakeholder submissions. Currently, there are no further TRG meetings scheduled after the 4 April TRG meeting.

The Committee also noted that HKIISG members found the local meetings to be helpful and useful for Hong Kong stakeholders.

The Committee agreed to continue with HKIISG meetings as long as they are still useful to stakeholders, and to invite reinsurers as guests to participate in discussions on an as need basis.

Other

The Committee noted that SSD has proposed to host a one-day forum on HKFRS/IFRS 17 in July 2019, but it is subject to approval by the HKICPA Executive Committee. IASB representatives are expected to participate. The Committee also noted that SSD plans to meet with the Insurance Authority to discuss developments on HKFRS 17 and regulatory capital requirements.

7. Goodwill and Impairment

Further to its September 2018 meeting, the Committee received an update on the IASB's project on Goodwill and Impairment. Noting that the IASB staff have additional work before the IASB publishes its consultation document, SSD considered whether it should conduct further studies and take a fresh look on the nature of goodwill, and work with other standard-setters to contribute to the IASB's project. In light of other competing priorities, the Committee recommended SSD to assess its availability before committing to conducting any major work. SSD to

consider what further work could be undertaken for discussion at a future FRSC meeting. SSD

8. Cryptocurrencies

Further to its May 2018 meeting, the Committee noted the recent IASB developments relating to cryptocurrencies and initial coin offerings (ICO), in particular:

- The IFRS Interpretations Committee (IFRIC) discussed the accounting for holdings of cryptocurrencies and ICO, the usefulness of applying existing IFRS Standards in providing information to users of financial statements and the type of standard setting activities that the IASB should undertake in relation to cryptocurrencies.
- The IASB staff acknowledged that transactions involving cryptocurrencies is an emerging area and prevalence could increase quite quickly. However, at this moment, there is no evidence of a significant increase in the number of IFRS reporters disclosing holdings of cryptocurrencies in their most recent interim or annual financial statements. There were significantly fewer ICO transactions undertaken by IFRS reporters than transactions involving holdings of cryptocurrencies.

After considering the IFRIC discussion and the prevalence of cryptocurrency transactions, the IASB decided:

- not to add to its work plan a project on holdings of cryptocurrencies or ICO at this moment;
- to continue to monitor the developments of cryptoassets; and
- to ask the IFRIC to consider publishing an agenda decision that would explain how entities apply existing IFRS Standards to holdings of cryptocurrencies, including the applicable disclosure requirements.

The Committee agreed to continue monitoring the IASB development in view of the recent development of cryptocurrencies.

9. Other Business

The Committee was made aware of questions from stakeholders about the authority of IFRIC agenda decisions. Although IFRIC agenda decisions are not part of the authoritative IFRS Standards, the views or conclusions discussed in agenda decisions often include information to help companies apply IFRS Standards by explaining how the applicable principles and requirements apply to submitted questions. The Committee noted that in practice, preparers and accounting practitioners generally adopt the views or conclusions in agenda decisions. In addition, many regulators expect practitioners in their territories to follow the IFRIC agenda decisions. The Committee will discuss this in more detail at future meetings, including ways to raise the awareness of IFRIC agenda decisions and timing of implementation of IFRIC agenda decisions.

There being no further business, the meeting closed at 12:30 p.m.

22 February 2019

SHELLEY SO
CHAIR