



Minutes of the 251st meeting of the Financial Reporting Standards Committee held on Tuesday, 2 July 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  
Mr. Ramil Clemena, BlackRock Asset Management North Asia Ltd  
Mr. James Fawls, HSBC  
Ms. Kelly Kong, Jardine Matheson & Co., Limited  
Ms. Susanna Lau, Securities and Futures Commission  
Ms. Cynthia Leung, Financial Reporting Council  
Mr. Ben Lo, Stock Exchange of Hong Kong Limited (on behalf of Steve Ong)  
Mr. Joe Ng, Ernst & Young  
Mr. Ghee Peh, Capital Luck Investments  
Mr. Simon Riley, BDO Limited  
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. Katherine Leung, Associate Director, Standard Setting  
Ms. Eky Liu, Associate Director, Standard Setting  
Mr. Anthony Wong, Associate Director, Standard Setting

Apologies: Ms. Candy Fong, Foremost Advisers Ltd  
Ms. Monica Ng, PricewaterhouseCoopers  
Mr. Gary Poon, Poon & Co.

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

The Committee approved and the Chair signed the minutes of the 250th meeting.

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

The Committee also noted SSD's proposed next steps for seven IFRS Interpretations Committee tentative agenda decisions and that the four agenda decisions discussed at the April FRSC meeting were finalised by the IFRS Interpretations Committee with minor drafting edits. Regarding the agenda decision on holdings of cryptocurrencies, the Committee noted that the IFRS Interpretations Committee did not discuss comments about the need for standard-setting activity (the HKICPA's main comment), because these will be considered by the IASB. The Committee agreed that SSD should continue to monitor the development of cryptocurrencies in Hong Kong and assess whether further work is necessary.

Action

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## 2. **Proposed Amendments to the IFRS Foundation Due Process Handbook**

Further to its May meeting, the Committee discussed the staff's draft submission on the Exposure Draft of proposed amendments to the IFRS Foundation Due Process Handbook.

In particular, the Committee considered the cost-benefits of one of its recommendations to the IFRS Foundation, which is to undertake further due process steps to add clarification to parts A or B of IFRS Standards for agenda decisions that lead to prevalent and significant change in practice. The Committee noted that adding clarification to parts A or B may delay the issuance of final guidance as due process takes time. Nevertheless the Committee agreed that the benefits of having the guidance in part A or B of the Standards would justify this delay.

The Committee also commented that both the IASB and the HKICPA should consider ways to better publicise tentative and final agenda decisions and consider ways to help constituents follow the development of agenda decisions.

The SSD staff will incorporate the Committee's recommendations from the meeting in the draft submission and circulate the updated submission to the Committee for approval out of session. The IFRS Foundation's comment period ends on 29 July 2019.

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[Post-meeting note: The submission on the Exposure Draft was sent to the IFRS Foundation on 26 July 2019.]

## 3. **Goodwill and impairment**

Further to its April meeting, the Committee received an update on the IASB's project on Goodwill and Impairment. The Committee noted that at the June IASB meeting the IASB took stock of its discussions to date and decided which preliminary views to include in its Discussion Paper. In particular, the IASB reached a preliminary view that it should retain the existing impairment-only model for the subsequent accounting for goodwill, rather than develop a proposal to reintroduce amortisation of goodwill. However, since only eight of fourteen IASB members agreed with this decision, and six disagreed, the arguments for both approaches will be incorporated in the Discussion Paper. The IASB will decide whether to begin the balloting process for the Discussion Paper, which it plans to publish around the end of 2019, at its next meeting.

The Committee also received an update on SSD's joint project with the staff of the Accounting Standards Board of Japan (ASBJ). The objectives of the joint project are to 1) gain a better understanding of the nature of goodwill; 2) explore whether there is a conceptual argument for amortisation of goodwill, instead of amortisation being a means to provide practical relief; and 3) encourage further debate on the nature of goodwill and its subsequent accounting, locally and globally.

The Committee generally supported the direction of the joint staff project and agreed that the most important part of the joint staff paper is to explain whether goodwill is a diminishing asset to facilitate the debate about reintroduction of amortisation. The Committee observed that the impairment test is not operating as it was intended and this could be due to behavioural issue leading to poor application and enforcement of the requirements.

The Committee noted SSD and the ASBJ staff aim to present the joint staff paper at future Standard Setters meetings that the HKICPA participates in outside of Hong Kong, to coincide with the issuance of IASB's Discussion Paper.

#### **4. IASB Exposure Draft on Annual Improvement Project (ED/2019/2)**

Further to its November 2018 meeting, the Committee considered the staff proposals to respond to the IASB Exposure Draft of Annual Improvements to IFRS Standards 2018–2020. The ED comprises the following projects:

- Subsidiary as a first time adopter (IFRS 1 *First-time Adoption of International Financial Reporting Standards*)
- Fees in the '10 per cent' test for derecognition (IFRS 9 *Financial Instruments*)
- Lease incentives (Illustrative Examples accompanying IFRS 16 *Leases*)
- Taxation in fair value measurements (IAS 41 *Agriculture*)

At its November 2018 meeting, the Committee received an update on these four projects and considered 'Lease incentives' and 'Fees in the '10 per cent' test for derecognition' as high priority projects as they are likely to impact Hong Kong entities. The Committee also considered the other two projects in the ED and agreed not to respond unless it receives stakeholder comments because the projects are expected to have a low impact on Hong Kong entities.

##### Lease incentives

SSD provided the Committee with the views of some members of the Leases Advisory Panel, which are consistent with SSD's recommendation on the proposals. The Committee agreed with the staff to respond to the IASB by commenting that:

- the removal from the example of payments from the lessor relating to leasehold improvements would not improve understanding of the IFRS 16 requirements; and
- to instead consider clarifying the example by providing more background/information to explain why the accounting treatment for the payment from the lessor relating to leasehold improvements is different from the reimbursement of the real estate commission.

##### Fees in the '10 per cent' test for derecognition

SSD provided the Committee with the views of some members of the Financial Instruments Advisory Panel (FIAP); they agreed with the IASB's proposal and its rationale in the Basis for Conclusions, which is also consistent with the current accounting practice.

The Committee agreed with the staff proposal to respond and to express support for the proposed amendments to IFRS 9.

The HKICPA's comment period ends on 22 July 2019 and the IASB's comment period ends on 20 August 2019. SSD will consider any further feedback from stakeholders during the remaining comment period and update the Committee. SSD will circulate a draft submission on the IASB's Exposure Draft to the Committee in early August 2019 for approval out of session.

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There being no further business, the meeting closed at 10:00 a.m.

26 August 2019

ERNEST LEE  
CHAIR