



Minutes of the 252nd meeting of the Financial Reporting Standards Committee held on Tuesday, 3 September 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. Candy Fong, Foremost Advisers Ltd
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Ms. Cynthia Leung, Financial Reporting Council
Ms. Monica Ng, PricewaterhouseCoopers
Mr. Steve Ong, Stock Exchange of Hong Kong Limited
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
Mr. Tiernan Ketchum, 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. Susanna Lau, Securities and Futures Commission
Mr. Joe Ng, Ernst & Young
Mr. Gary Poon, Poon & Co.

Action

1. Minutes, work program and stakeholder liaison log

The Committee approved and the Chair signed the minutes of the 251st meeting.

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

In particular, the Committee noted that EFRAG is conducting a research project on crypto-assets with the objective of assessing the significance of crypto-asset activities and identifying possible solutions for accounting challenges that are not addressed within existing IFRS Standards. EFRAG is currently conducting outreach with stakeholders in different jurisdictions, including national standard setters, to understand developments in local regulations and accounting standards/guidance on crypto-assets, and also the significance of transactions and common fact patterns in their jurisdictions.

The Committee noted that crypto-assets is a high priority project under the Committee's strategic plan and there is an increasing need for a more robust accounting for crypto-assets (this was the HKICPA's main comment in its response to the IFRS Interpretations Committee tentative agenda decision on cryptocurrencies in May 2019). Consequently, the Committee agreed that SSD should take part in EFRAG's outreach activities and

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provide our observations and results of our outreach on crypto-asset transactions in Hong Kong. SSD staff will reach out to the Committee and industry experts in September and October to seek their input on the significance and common fact patterns of crypto-asset transactions in Hong Kong.

2. IASB Exposure Draft ED/2019/4 Amendments to IFRS 17

The Committee received an update on SSD's main activities related to IFRS/HKFRS 17 *Insurance Contracts* since the FRSC last discussed the Insurance project in April 2019, and in particular those in response to the IASB's publication of ED/2019/4 in June 2019. These activities included:

- issuing an Invitation to Comment (ITC) on ED/2019/4 on 27 June 2019 to seek comments from our stakeholders on the IASB's proposals;
- an IFRS 17 Global Developments Discussion Forum in July 2019 with representatives from international standard setters as speakers, including Canada and Europe;
- multiple industry roundtables and investor sessions during July 2019 for stakeholders to voice their views on the proposals in ED/2019/4, led by IASB insurance project staff and IASB Board member that is the Chair of the Transition Resource Group for IFRS 17;
- meetings of the Hong Kong Insurance Implementation Support Group (HKIISG) in July and September 2019 to discuss feedback from stakeholders and the Institute's response to ED/2019/4; and
- various individual meetings with local insurance entities and other stakeholders to further understand their concerns raised through the above channels.

The Committee considered a draft submission to the IASB on ED/2019/4, together with the comment letters received on our ITC and a summary of the feedback received from the roundtables and HKIISG meetings. The Committee focussed their discussions on the following four proposed amendments where stakeholders had raised significant comments:

- allocation of acquisition costs to expected contract renewals;
- attribution of profit to service relating to investment activities;
- reduced accounting mismatches for reinsurance; and
- deferral of the effective date of IFRS 17 from 1 January 2021 to 1 January 2022.

The Committee generally agreed with the broad direction of SSD's recommendations in the draft submission. Committee members also agreed on the importance of emphasizing that the proposed amendments should be principle-based, but that some guidance in the form of parameters or examples might be incorporated in the Standard to help to explain the principles.

The Committee also noted stakeholder comments on the importance of a globally consistent effective date among major jurisdictions, and noted that it will continue to monitor international developments and discuss these concerns further at a subsequent meeting.

SSD will incorporate the Committee's comments and the feedback from the HKIISG meeting on 2 September into the final submission. This will be done in conjunction with the Committee's insurance task force, composed of members of the HKIISG chairperson pool of current and ex-Committee members (namely Mr. Ernest Lee, Mr. Gary Stevenson, Mr. James Fawls,

SSD, Ernest Lee, Gary Stevenson, James Fawls, Shelley So,

Ms. Shelley So and Ms. Sanel Tomlinson). The staff will prepare the final submission for approval by the Committee out of session.

Sanel
Tomlinson

[Post-meeting note: The submission on ED/2019/4 was sent to the IASB on 25 September 2019.]

3. IASB Exposure Draft ED/2019/3 Reference to the Conceptual Framework (Amendments to IFRS 3)

Further to its April meeting, SSD provided the Committee with a summary of feedback received from local stakeholders on ED/2019/3 and SSD staff's analysis and recommendations.

The Committee noted that stakeholders either supported the IASB's proposals or did not express any concerns. The Committee supported the IASB proposals as an urgent but interim solution to solve the conflict between the requirements in IFRS 3 *Business Combinations* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*/IFRIC 21 *Levies*. Considering that this is a low priority project under the Committee's strategic plan and stakeholders did not raise any issues, the Committee agreed with the SSD staff proposal not to respond to the ED.

4. Proposed Amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME Standard)

Further to its May meeting, SSD provided the Committee with a draft exposure draft of proposed amendments to the SME Standard after incorporating the comments from the SME Standard Advisory Panel (Panel).

The Committee considered the comments from the Panel and was generally supportive of the draft exposure draft.

The Committee observed that the draft exposure draft addresses the main concerns of the stakeholders identified in the [Feedback Statement](#) and proposes relatively minor amendments to the SME Standard. The Committee supported SSD's plans to perform limited outreach activities on the proposals in the exposure draft, including the issuance of an Invitation to Comment and discussion with the Institute's Small and Medium-sized Practitioners Committee Technical Issues Working Group.

SSD will incorporate the Committee's comments in the draft exposure draft and circulate for the Committee's approval out of session.

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[Post-meeting note: The exposure draft was circulated to FRSC for its approval out of session on 9 September 2019 and published for comment on 30 September 2019.]

5. 2019 Annual Accounting Update

The Committee provided recommendations for the 2019 Annual Accounting Update conference, scheduled to take place on 16 November 2019. The Committee agreed that the focus of the conference should be application of the major standards and that we should also provide an update on FRSC and SSD key activities during the year.

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

Further to its December 2018 meeting, the Committee received and considered the following update on the BCUCC project:

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

SSD updated the Committee on its follow-up work and findings in the following areas:

- Research on the rationale for the scope and the accounting requirements of AG 5;
- Outreach with investors to better understand their information needs; and
- Outreach with regulators and accounting experts in capital market transactions to understand the impact of stakeholders' AG 5 recommendations on the Listing Rules.

After considering the research and outreach findings above, together with findings reported at previous FRSC meetings, the Committee agreed with the SSD staff not to revise the following areas of AG 5 prior to the IASB finalising its BCUCC project:

- Clarifying the scope of AG 5;
- Specifying who is the controlling party and which carrying values to use in recognising the net assets of the transferred entity;
- Considering the appropriateness of restating comparatives; and
- Clarifying the accounting for different forms of consideration paid.

In particular, the Committee noted that the IASB is currently discussing the accounting approach for transactions within the scope of its BCUCC project, and has not made any decisions. Therefore, the Committee generally agreed not to amend the principles and accounting requirements in AG 5 that could be affected by the outcome of IASB BCUCC's project in order to avoid multiple changes to the accounting for BCUCC and unnecessary burden and confusion for preparers and users of financial statements.

However, the Committee agreed with SSD proposals to add guidance to the following areas of AG 5 prior to the IASB finalising its BCUCC project:

- Adding commonly-seen fact patterns to illustrate the common practice of accounting for changes in non-controlling interests (NCI); and
- Adding examples of best practice disclosures.

Some Committee members highlighted the importance of having illustrative examples that considered the different views in practice and that would not cause misinterpretation or application issues for the existing requirements in AG 5.

The Committee also agreed to update the terminologies and references in AG 5 to align with existing HKFRS standards in order to avoid confusion or misinterpretation by entities.

The Committee agreed that SSD should work with the Business Combination and Reporting Entity Advisory Panel on drafting an exposure draft for the above proposed amendments and illustrative examples, and bring a draft exposure draft to a future FRSC meeting for consideration.

IASB developments

The Committee noted that the IASB has focused on whether a current value approach should apply to some or all BCUCC by considering the following areas:

- Information needs of the primary users of the receiving entity's financial statements;
- Whether transactions that do not affect NCI in the receiving entity are different from transactions that do and also business combinations that are not under common control; and
- Whether to make a distinction between 'listed' versus 'private' receiving entities.

The Committee also noted that the IASB tentatively decided that it could pursue:

- A current value approach for all or some transactions that affect NCI of the receiving entity; and
- A different approach, such as a form of a predecessor method, for transactions that affect lenders and other creditors of the receiving entity but do not affect NCI.

The Committee generally agreed with SSD staff's preliminary view that accounting for BCUCC should depend on the substance of the transaction. Specifically, if the substance of the BCUCC is the same as that of a business combination (BC) in the scope of IFRS 3, the same accounting method should be applied to both BCUCC and BC. If the substance of a BCUCC is different from a BC, applying an alternative accounting method may be justifiable. The Committee also considered that the information needs or presence of NCI should not be the only factor in determining the accounting for BCUCC. Some Committee members did not think that it was appropriate to determine the accounting approach based on whether the receiving entity is listed or not.

One Committee member cautioned use of the term substance, as the understanding of this term may be varied and most transactions would have substance of some kind. He suggested using nature or purpose of the transaction. Another member suggested further clarification of the indicators identified in SSD's analysis that help determine the substance of the transaction. Overall the Committee supported the SSD staff proposal to carry out further research/analysis to determine whether these indicators are useful in determining the accounting for BCUCC.

One Committee member considered that if a current value method is used for BCUCC, it should be the acquisition method in IFRS 3 because introducing a modified acquisition method for BCUCC would be confusing. Some Committee members considered that if a predecessor method is considered the IASB should provide guidance on its application because current application varies between jurisdictions.

The Committee noted that SSD staff has been in close dialogue with the IASB BCUCC team. The Committee agreed that SSD staff should continue to closely monitor and provide input into the IASB project and inform the FRSC of further IASB developments.

7. Goodwill and impairment

Further to its July meeting, the Committee received an update on the IASB's Goodwill and Impairment project. The Committee noted that the IASB has completed its discussions in the first phase of the project and decided to publish a Discussion Paper around the end of 2019 with a comment period of 180 days.

The Committee also received an update on SSD's joint project with the staff of the Accounting Standard Boards Board of Japan (ASBJ). The Committee noted that the staff had continued to work on the joint staff paper and made progress on the following main areas:

- Quantitative analysis on goodwill and impairment trends in major jurisdictions in recent years;
- Discussion of the nature of the components of goodwill and whether acquired goodwill diminishes over time; and
- Discussion of possible methods to determine the useful life of goodwill.

The Committee noted that at the October IFASS meeting, SSD and ASBJ staff plan to present the quantitative analysis and facilitate a group discussion on whether acquired goodwill is a diminishing asset and how its useful life might be determined. Feedback from the IFASS meeting will be included in the joint staff paper. The Committee also noted SSD and the ASBJ staff aim to finalise the joint staff paper around the end of 2019, to coincide with the issuance of the IASB's Discussion Paper.

8. Valuation

In May 2019, the Committee noted that SSD and other departments of the Institute have been participating in a task force set up to improve the quality of the valuation profession in Hong Kong. The task force aims to develop a framework to help elevate standards and professionalism in valuations for the Hong Kong market.

The Committee noted that a consultation paper on the proposed framework has been published and the task force members, which includes the Institute, have been encouraging stakeholders to respond to the proposals. The proposed framework supports business valuation practices in Hong Kong and aims at improving practices by promoting competence and allowing only appropriately qualified professionals to perform business valuations for listed and private companies.

In addition, the Committee noted that a dedicated page for this initiative - [Hong Kong Business Valuation Quality initiative](#) has been set up on the Institute's website.

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

ERNEST LEE
CHAIR

31 October 2019