



Minutes of the 255th meeting of the Financial Reporting Standards Committee held on Tuesday, 25 February 2020 at 8:30 a.m. via videoconference.

Members present: Mr. Ernest Lee (Chairman), Deloitte Touche Tohmatsu  
Mr. Gary Stevenson (Deputy Chairman), RSM Hong Kong  
Mr. Choy Kai Sing, Daido Group Limited  
Mr. James Fawls, HSBC  
Ms. Candy Fong, Foremost Advisers Ltd  
Ms. Susanna Lau, Securities and Futures Commission  
Ms. Cynthia Leung, Financial Reporting Council  
Mr. Joe Ng, Ernst & Young  
Ms. Monica Ng, PricewaterhouseCoopers  
Mr. Ghee Peh, IEEFA  
Mr. Richard Poon, AIA Group  
Mr. Brett Shadbolt, Censere  
Mr. Jim Tang, KPMG

Staff in attendance: 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: Mr. Simon Riley, BDO Limited  
Ms. Kelly Kong, Jardine Matheson & Co., Limited  
Mr. Guochang Zhang, The University of Hong Kong

Action

**1. Welcome and Introductions**

The Chairman welcomed Mr. Choy Kai Sing, Mr. Richard Poon and Mr. Brett Shadbolt as new members of the Committee.

The Committee noted the general confidentiality rules in relation to minutes and agenda papers, its terms of reference, and 2020 meeting dates.

**2. Minutes and stakeholder liaison log**

The Committee agreed to approve the minutes of the 254th meeting and noted SSD's stakeholder liaison log.

**3. Strategic Planning**

The Committee noted the developments outlined in the FRSC and SSD work program and reflected on the 2019 activities against its 3-year strategic plan (2017-2019) which included:

- responding to high priority projects like amendments to IFRS 17 *Insurance Contracts*, IBOR reform (phase 1), amendments to IAS 1 *Presentation of Financial Statements* and amendments to IAS 12 *Income Taxes*.
- outreach events to understand the views of different stakeholders, including investors, preparers, practitioners, lenders and regulators on major projects including Business Combinations under Common

Control, Goodwill and Impairment, amendments to IFRS 17 and Crypto-assets.

- research studies of financial statements and other submissions for major projects, including Primary Financial Statements and Business Combinations under Common Control, to understand current reporting preferences in Hong Kong to inform our views.
- presenting our research and views at international forums like IFASS, ASAF and AOSSG, and hosting an IFRS 17 Global Developments Discussion Forum in Hong Kong with representatives from the IASB and standard setters in Canada and Europe.
- supporting the Hong Kong market in implementing major new standards through educational and training sessions for preparers, practitioners and investors, published Q&As and articles, revising our technical enquiry policy for ease of use, and collaboration with IASB and other national standard setter to resolve common technical issues.
- completing a post implementation review of the SME-FRF/FRS and providing elearning and a seminar specifically for SMEs.

The Committee also noted that the SSD had set up a new process during the year to seek our advisory panel views and regularly report SSD activities to the Committee on IFRS Interpretations Committee (IC) Agenda Decisions (ADs) and Tentative Agenda Decisions (TADs). At this meeting the Committee supported SSD's analysis and reasons for not responding to two TADs and noted that two ADs discussed at previous FRSC meetings were finalised with minor changes.

The Committee noted that:

- the Council plans to discuss its strategy and is likely to provide details of the Institute's Seventh Long Range Plan in the first half of the year; and
- recruitment of a new Director, Standard-setting, is in progress.

Consequently, the Committee agreed to continue with its 2017-2019 strategic plan for the first half of 2020, and reassess the strategy, 2020-2022 project plans and resources in mid-2020, when there is further clarity on these events. Therefore, for the first half of 2020, the Committee will continue to focus its efforts on:

- responding to high priority projects throughout the project life cycle and conducting research and outreach activities to inform its views;
- understanding, facilitating and addressing issues arising from applying/implementing HKFRS and SME-FRF/FRS; and
- enhancing stakeholder relations and engagement, and international representation, with particular focus on high priority projects.

The Committee noted the 2019 progress and agreed with SSD's proposed plans for the next six months for the following high priority projects:

- Business Combinations Under Common Control (BCUCC)
- Primary Financial Statements
- Disclosure Initiative
- Financial Instruments with Characteristics of Equity
- Conceptual Framework
- Goodwill and Impairment
- HKFRS 9 *Financial Instruments*
- HKFRS 15 *Revenue from Contracts with Customers*
- HKFRS 16 *Leases*
- HKFRS 17 *Insurance Contracts*
- SME-FRF/FRS

The Committee noted there are eight active consultation documents on the FRSC's high priority projects in the first half of 2020. Some Committee members expressed concern about whether SSD has sufficient resources

to carry out all of its planned research and outreach on these projects. Hence, the Committee cautioned SSD to monitor its availability and revisit the priority of, or extent of work on, the high priority projects, if necessary.

The Committee thanked SSD for the work done in 2019 and its efforts made in increasing the Institute's standard-setting profile and activities in Hong Kong and internationally. Committee members noted the importance of our international involvement and continuing to actively participate in the global standard-setting arena.

#### **4. 2019 Comprehensive Review of the IFRS for SMEs Standard (2019 Review)**

SSD provided the Committee an update on the objective and scope of the 2019 Review and the IASB Request for Information (RFI).

The Committee observed that there appears to be limited application of the *HKFRS for Private Entities/IFRS for SMEs Standard* in Hong Kong. Some Committee members noted that this is likely because the *HKFRS for Private Entities* is too complex for SMEs. They noted that SMEs prefer to use the home grown SME Standard (SME-FRF/FRS), a predominantly cost-based measurement standard, which is easier for them to apply. Some Committee members questioned whether there is still a need for the *HKFRS for Private Entities* in Hong Kong, given that the qualifying criteria for use of the SME-FRF/FRS has recently been widened, and suggested that we should monitor whether the *HKFRS for Private Entities* is still fit for purpose. However, members acknowledged that it is difficult to ascertain the full extent of use of the *HKFRS for Private Entities* in Hong Kong.

The Committee recommended SSD to balance the extent of our outreach activities on the RFI with SSD's availability during the next six months considering the apparent limited use of the *HKFRS for Private Entities/IFRS for SMEs Standard* in Hong Kong.

#### **5. Goodwill and Impairment**

The Committee received a recap of the objectives of the IASB's Goodwill and Impairment project and the Committee's own discussions so far, and an update on progress on SSD's joint staff paper with the staff of the Accounting Standards Board of Japan (ASBJ).

Further to its November 2019 meeting, the Committee was informed that both SSD and the ASBJ staff have continued to discuss how to present their views on the subsequent accounting of goodwill in the joint paper. The Committee noted that the draft paper is currently structured in a combination of joint and individual sections to highlight both staffs joint support for the reintroduction of an amortisation with impairment approach, but also represent the fact the two staffs have different supporting rationales for this approach.

Committee members were generally supportive of the structure of the joint paper and SSD's technical views. Some members shared their views on the nature of goodwill and issues associated with its accounting, including the need to cater for different business life cycles and be mindful not to add too much complexity in developing an amortisation approach. Some members commented that the annual impairment approach does provide some useful information, but that the information is subjective. They hence noted the merits of an amortisation with impairment approach together with supporting disclosures to ensure investors receive quality information.

In addition to holding regular teleconference meetings with the ASBJ staff, the Committee also noted that SSD had performed the following outreach activities:

- SSD and ASBJ staff met with the IASB project team in London in December 2019 to share our developing views and obtain feedback.
- SSD collaborated with academics to get feedback on and develop our technical views.
- SSD has launched a new Goodwill and Impairment webpage to share the latest IASB and SSD project updates and related resources.

The Committee agreed that SSD will continue discussions and work with the ASBJ staff to finalise the joint staff paper by early March, to coincide with publication of the IASB's Discussion Paper in March. The Committee also noted SSD's intention to present their views together with the ASBJ staff at the coming ASAF and IFASS meetings in April.

SSD

6. **Amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (Amendments to the SME-FRF/FRS)**

The Committee noted the feedback from stakeholders, including the Institute's Small and Medium-sized Practitioners Committee Technical Issues Working Group, obtained during the outreach activities on the Institute's Exposure Draft of proposed amendments to the SME-FRF/FRS (ED). The ED was published on 30 September 2019 with responses due by 31 January 2020.

After considering the feedback received, the Committee agreed to finalise the amendments as proposed in the ED, but to also clarify that the disclosure requirements for consolidated financial statements in paragraph 19.16(g) also apply to the company-level financial statements if all of an entity's subsidiaries are excluded from consolidation applying paragraph 19.2(b). The Committee approved the Amendments to the SME-FRF/FRS with an effective date of 1 January 2021.

The Committee agreed that the next review of the SME-FRF/FRS should take place in five years' time, unless significant issues arise earlier, to provide a stable platform for SMEs and allow sufficient time and experience for preparers/practitioners to apply the standard.

[Post-meeting note: Amendments to the SME-FRF/FRS was issued on 30 March 2020.]

7. **Business Combinations under Common Control**

Further to its December 2019 meeting, the Committee noted that SSD had a meeting with the Business Combinations and Reporting Entity Advisory Panel (the 'BC Panel') to discuss the IASB's tentative decisions and their implications for Hong Kong companies and also discuss SSD's proposals for AG 5 *Accounting for Common Control Combinations*. The Committee also noted that SSD are in the process of drafting an Exposure Draft for the proposed amendments and illustrative examples to AG 5 and will bring a draft Exposure Draft to a future FRSC meeting for consideration.

At this meeting, the Committee received a recap of the IASB's prior discussions, and an update on the IASB's recent developments and findings from SSD's research and outreach since the December 2019

FRSC meeting. The Committee was asked to consider SSD's current thinking on the IASB's tentative decisions and proposed next steps.

#### Update on IASB recent developments

The Committee noted that the IASB made the following tentative decisions on how to apply a current value approach:

- the receiving entity should not be required to identify, measure and recognise a distribution for an excess of the consideration transferred over the fair value of the acquired business; and
- the receiving entity should recognise any excess fair value of the acquired identifiable net assets over the consideration transferred as an increase in the receiving entity's equity (contribution), not as a gain on a bargain purchase in profit or loss.

The Committee also noted that the IASB completed its discussion on how to apply a predecessor approach; in particular, the IASB discussed the accounting for transaction costs, different forms of consideration and the difference between the consideration and the carrying amounts of net assets received.

#### Findings from SSD's research and outreach

The Committee received an update on SSD's research and analysis on which factors should be considered when evaluating the substance of a BCUCC and therefore determine the accounting for BCUCC.

The Committee also received an update on SSD's meeting with the BC Panel. The Committee noted that the BC Panel generally agreed with SSD's view that, whilst the IASB tentative decision on when to use which measurement approach may not have a strong conceptual basis (because it is solely based on the existence of a non-controlling shareholder of the receiving entity and whether the receiving entity is listed or non-listed), it is simple and practical to apply, and considers cost-benefits. The Committee also noted that two Panel members highlighted some practical concerns about use of the carrying values in the transferred entity's financial statements when a predecessor approach is applied, whilst other panel members did not express major concerns.

After considering SSD's findings, the Committee generally agreed with SSD's latest thinking that on balance, the IASB's tentative decision on when to use which measurement approach is a viable approach to explore. One Committee member also agreed with SSD's views that certain areas in the IASB's tentative decision need further clarification to ensure consistent application.

The Committee also agreed with SSD's analysis that determining accounting of BCUCC based on the substance of the transaction is highly subjective, and may still result in diversity in practice. Accordingly, the Committee agreed with SSD's proposal that no further research on factors to consider in evaluating the substance of a BCUCC would be carried out.

The Committee noted that the IASB will complete its discussion about BCUCC at its upcoming meeting and expects to issue a Discussion Paper in Q2 2020. The Committee agreed that SSD should continue to closely monitor and provide input into the IASB project and bring our outreach plans to the next FRSC meeting.

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## 8. **Insurance Contracts**

The Committee received an update on the IASB's redeliberation process on the Exposure Draft *Amendments to IFRS 17* that began in November 2019, and an explanation of how the IASB had thus far dealt with the Institute's main comments on that Exposure Draft. The Committee also noted that since the last FRSC meeting, SSD has also:

- continued to work with the Hong Kong Implementation Support Group (HKIISG) to provide ongoing IFRS 17 implementation support, and provide a forum to discuss and provide feedback on the IASB's redeliberation process and agenda papers.
- responded to technical issues noted through local industry, including commencing development of educational guidance on how to account for the contractual service margin under HKFRS 17 for contracts with multiple services.
- further to the December FRSC meeting, met with representatives of the Hong Kong Federation of Insurers (HKFI) to discuss the HKFI letter about the effective date of IFRS/HKFRS 17. On this point, the Committee noted that the Institute had also sent a response to the HKFI on 3 February 2020, which noted:
  - the Committee has been communicating to the IASB the importance of a uniform effective date for global adoption (reiterated in the Institute's comment letter to the Exposure Draft in September 2019).
  - the IASB continues to deliberate on the effective date and will be taking into consideration various factors including comment letters received.
  - that the HKFI should continue to assist and encourage its members to keep up with implementation of HKFRS 17, as delays to implementation activities would not constitute a reason to delay the effective date.

The Committee noted that SSD would continue to monitor the IASB's discussions and provide feedback to the IASB staff as the redeliberation on IFRS 17 continues during the first half of 2020, and bring the issues discussed (including effective date) for further discussion at a future FRSC meeting.

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The Committee also considered and confirmed the replacement of a departing HKIISG member with a new member representing the same company.

## 9. **Accounting implications of the coronavirus**

The Committee discussed the accounting implications of the coronavirus disease 2019 (COVID-19) in Hong Kong and the need to provide timely guidance. As part of this discussion, the Committee received a briefing on the timeline of COVID-19 as set out by the World Health Organisation's (WHO) situation reports.

The Committee considered whether the development and spread of COVID-19 should be accounted for as an adjusting or non-adjusting event under HKAS 10 *Events after the Reporting Period* and also discussed the practical difficulties and judgement required in distinguishing the effects of the COVID-19 from the effects of other events, such as the recent market unrest. The Committee also discussed going concern considerations.

The Committee agreed that the Institute should publish educational guidance on the accounting implications for coronavirus to respond to the difficulties faced by entities with reporting periods ending on 31 December 2019.

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[Post-meeting note: Education material was published on 5 March 2020.]

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

ERNEST LEE  
CHAIR

27 April 2020