



Minutes of the 257th meeting of the Financial Reporting Standards Committee held on Tuesday, 30 June 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
Ms. Candy Fong, Foremost Advisers Ltd
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Mr. Kenneth Lau, Crowe (HK) CPA Limited
Ms. Susanna Lau, Securities and Futures Commission
Ms. Cynthia Leung, Financial Reporting Council
Mr. Joe Ng, Ernst & Young
Ms. Monica Ng, PricewaterhouseCoopers
Mr. Steve Ong, Stock Exchange of Hong Kong Limited
Mr. Ghee Peh, IEEFA
Mr. Simon Riley, BDO Limited
Mr. Richard Poon, AIA Group
Mr. Jim Tang, KPMG
Mr. Guochang Zhang, The University of Hong Kong

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. James Fawls, HSBC
Mr. Brett Shadbolt, Censere

Action

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

The Committee approved and the Chair signed the minutes of the 256th meeting.

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

The Committee also noted SSD's analysis and plans for outreach on the IC tentative agenda decision on supply chain financing arrangements that is open for comment until 30 September 2020 and noted that the IC had finalised four agenda decisions with minor changes.

2. **IASB ED/2019/7 General Presentation and Disclosures**

The Committee received an overview of the proposals in the IASB's ED, and the feedback received so far from SSD staff's outreach activities, which included the following meetings (meeting summaries will be posted on the Institute's website in due course) as well as meetings with individual organisations, including regulators:

- meetings with the Committee's Advisory Panels;

- meeting with the Small and Medium Practitioners Technical Issues Working Group; and
- public roundtable discussion with investors, preparers and practitioners.

The Committee was also asked to consider SSD staff's preliminary views on the ED and proposed next steps.

The Committee generally agreed with staff's preliminary views on the proposals. Committee members also provided some of their initial observations and suggestions to improve the proposals.

SSD will provide an update on any further stakeholders' feedback and prepare a draft submission based on the Committee's direction for the next FRSC meeting for the Committee's consideration.

SSD

3. **2019 Comprehensive Review of the IFRS for SMEs Standard (2019 Review)**

Further to its February meeting, the Committee received an update on SSD staff's outreach activities on the 2019 Review and feedback received so far on the IASB's Request for Information (RFI). SSD staff's outreach activities included meeting with the Small and Medium Practitioners Technical Issues Working Group and a public roundtable discussion (meeting summaries will be posted on the Institute's website in due course). The Committee was also asked to consider SSD staff's preliminary views on the RFI and proposed next steps.

The Committee generally agreed with SSD staff's preliminary views and recommendation to focus on the following areas in drafting the submission, unless significant comments on other sections of the *IFRS for SMEs Standard* are received from stakeholders:

- the IASB's approach and alignment principles for the 2019 Review;
- whether and how to align specific sections of the *IFRS for SMEs Standard* with the *2018 Conceptual Framework for Financial Reporting*, and the newer, more significant IFRS standards: IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*; and
- topics that are not addressed in the *IFRS for SMEs Standard*.

SSD staff will provide an update on any further stakeholders' feedback and prepare a draft submission for the Committee to consider at a future FRSC meeting.

SSD

4. **Post-implementation Review (PIR) of IFRS 10, IFRS 11 and IFRS 12**

The Committee received an update on the IASB's PIR of IFRS 10, IFRS 11 and IFRS 12 and noted that the IASB expects to publish a Request for Information (RFI) in the fourth quarter of 2020. The Committee agreed to classify this project as high priority considering that it relates to the principles for consolidation and accounting for joint arrangements that affect a wide range of companies in Hong Kong.

The Committee noted that in response to the IASB staff outreach request in the fourth quarter of 2019, SSD provided the IASB staff with our observations on topics to be included in the PIR considering application issues of the three Standards in Hong Kong (based on technical enquiries received by members and input from the Business Combination and

Reporting Entity Advisory Panel). The Committee also noted that the IASB has decided that the RFI will include these topics.

The Committee agreed with SSD's project plan, which includes responding to the forthcoming RFI and performing outreach activities to seek stakeholders' views. Some Committee members identified specific challenges encountered by some industries/types of companies in Hong Kong in applying HKFRS 10 and HKFRS 11 and suggested SSD to perform additional targeted outreach when the RFI is issued.

5. **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current**

Further to its May meeting, the Committee noted that the IASB planned to issue final Amendments to IAS 1 *Classification of Liabilities as Current or Non-current—Deferral of Effective Date* in July.

[Post-meeting note: The final Amendments to HKAS 1 were approved by the Committee out of session and issued on 14 August 2020].

Educational material on the Amendments to HKAS 1

At prior meetings, the Committee raised concerns about the need for clearer guidance in the following two areas of the Amendments to HKAS 1 and asked SSD staff to develop educational material:

- a) classification of a term loan that is callable by the lender at any time irrespective of a payment schedule beyond one year; and
- b) explanation of the rationale for having a different current/non-current classification of the host liability of convertible bonds denominated in functional versus foreign currency.

At this meeting, the Committee considered the draft educational material prepared by SSD staff.

Some Committee members raised concern about the interpretation of 'right to defer settlement' in paragraph 72A of the Amendments to HKAS 1 and questioned whether a right to defer the settlement exists at the end of the reporting period if (a) the lender tests compliance with specified conditions based on particular financial results at a specified date other than the end of the reporting period, and (b) the entity would not meet the conditions at the end of the reporting period if the lender were to test based on the financial results at the end of the reporting date. The Committee noted that this scenario could be common in practice and requested SSD staff to perform outreach on the application of this paragraph and bring their findings to the September FRSC meeting for further discussion.

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Committee members also provided some drafting suggestions to clarify the examples in the draft educational material. SSD will incorporate the Committee's comments and bring the draft educational material back to the next FRSC meeting.

SSD

Update of Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK-Int 5)

In 2010, the Institute issued HK-Int 5 to address the diversity in practice in classification of term loans with repayment on demand clauses as current or non-current applying paragraph 69 of HKAS 1. In its submission on the 2015 Exposure Draft of proposed amendments to IAS 1, the Committee recommended that the IASB should add clarification to IAS 1 to address

classification of term loan with such clauses. The Committee noted that the final Amendments to IAS 1/HKAS 1 do not fully address this recommendation. Consequently, the Committee agreed to retain HK-Int 5 to ensure continuing consistency of application, given such loans are common and so this issue has widespread implications for financial reporting in Hong Kong.

The Committee asked SSD to update HK-Int 5 and the supporting Questions and Answers to reflect the Amendments to HKAS 1 for the Committee to consider and approve.

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6. **Insurance Contracts**

The Committee received an update on the status of the HKFRS 17 *Insurance Contracts* project and noted that the amendments to IFRS 17 had been issued by the IASB on 25 June 2020.

The Committee was presented with a memorandum that outlined the Institute's due process steps, and actions taken and to be taken over the coming months with regard to the amendments to IFRS 17. This memorandum also highlighted the changes made by the amendments that were considered most significant for Hong Kong stakeholders and how those changes had been addressed by the IASB in finalisation of the amendments.

The Committee was then advised on the Institute's process for considering endorsement of the amendments to IFRS 17, including a list of factors that SSD staff consider relevant to the Committee's endorsement decision. As part of this, the Committee noted SSD's plans to continue to monitor and assess international and Hong Kong developments with regard to IFRS/HKFRS 17 and to bring an update on these developments to the next FRSC meeting for the Committee to consider.

The Committee agreed to assess endorsement of the amendments to IFRS 17 at the next FRSC meeting.

7. **Other business**

A Committee member noted diversity in views on the application and interaction of IFRS 9 *Financial Instruments* and IFRS 16 *Leases* regarding the timing of recognition of a forgiveness or waiver of lease payments. The Committee asked SSD to consult the Leases Advisory Panel about their views on the accounting treatment and bring their feedback to the next FRSC meeting for further consideration.

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

ERNEST LEE
CHAIR

14 August 2020