



Minutes of the 229th meeting of the Financial Reporting Standards Committee held on Tuesday, 3 May 2016 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), Ernst & Young  
 Mr. Gary Biddle, The University of Hong Kong  
 Ms. Kelly Kong, Jardine Matheson & Co., Limited  
 Ms. Susanna Lau, Securities and Futures Commission  
 Mr. Steve Ong, Stock Exchange of Hong Kong Limited  
 Mr. Paul Phenix, Baker Tilly Hong Kong Limited  
 Mr. Gary Poon, Poon & Co.  
 Mr. Simon Riley, BDO Limited  
 Ms. Sanel Tomlinson, KPMG  
 Ms. Florence Wong, Financial Reporting Council  
 Mr. Guochang Zhang, The Hong Kong University of Science and Technology

Staff in attendance: Ms. Christina Ng, Head of Financial Reporting, Standard Setting  
 Ms. Winnie Chan, Associate Director, Technical and Learning Support  
 Ms. Winnie Chan, Associate Director, Standard Setting  
 Ms. Kam Leung, Associate Director, Standard Setting  
 Ms. Eky Liu, Associate Director, Standard Setting  
 Ms. Katherine Leung, Manager, Standard Setting

Apologies: Ms. Grace Chan, Government of HKSAR, Treasury  
 Mr. James Fawls, HSBC  
 Ms. Candy Fong, Deloitte Touche Tohmatsu  
 Mr. Gary Stevenson, RSM Nelson Wheeler

- |   | <u>Action</u> |
|---|---------------|
| <p><b>1. <u>Minutes, work program and approvals out of session</u></b></p> <p>The Committee approved and the Chairman signed the minutes of the 228th meeting.</p> <p>The Committee noted the developments outlined in the FRSC and staff work program and liaison log.</p> <p>The Committee also noted its out of session approval of <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> in April 2016 and that issuance of the amendments are expected by June 2016.</p>   |               |
| <p><b>2. <u>IFASS meeting</u></b></p> <p>The Committee received an overview of the IFASS meeting discussions in April 2016, namely on the Australian and Korean accounting standards boards' joint research findings on the use of 'terms of likelihood' and on not-for-profit (NFP) sector accounting.</p> <p>The Committee:</p> <ul style="list-style-type: none"> <li>➤ supported the joint recommendations to the IASB on the use of 'terms of likelihood' in IFRS; and</li> <li>➤ agreed that SSD should conduct an informal fact-finding exercise on NFP sector accounting/reporting in Hong Kong but that this exercise</li> </ul> | SSD           |

should not take priority over its high priority projects that were agreed upon at the February 2016 FRSC meeting.

### 3. **Strategic matters**

The Committee noted SSD's plans to create an interest in the development of standards or standard-setting in the following manner:

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- Rebrand the standard-setting function as a facilitator of business and not just as a standard-setter by engaging more actively with our stakeholders in person through roundtables or private meetings (whichever is more effective) and continuing our efforts as a conduit between our stakeholders and the IASB;
- Lift the profile of standard-setting in Hong Kong by using LinkedIn as another medium of engagement and interaction with and dissemination of key information to our stakeholders; and
- Together with the Institute's training team, consider the format of its technical program to incorporate more e-learning programs and, where appropriate, panel discussions and speakers from different professional backgrounds including academics, practitioners and preparers.

The Committee supports the SSD's plans.

### 4. **Leases**

The Committee considered and agreed with the staff and Leases Panel recommendation to withdraw HK-Int 4 *Determination of the Length of Lease Term in respect of Hong Kong Land Leases*. The Committee noted that HKAS 17 *Leases* and HKFRS 16 *Leases* are clear on the determination of lease term. However, because of concerns in 2004/5 on the potential diversity in practice from the accounting for land lease term in Hong Kong, HK-Int 4 was issued to reinforce the application of the requirements in HKAS 17. The Committee also noted that there is now a common understanding of the requirements to determine lease term which is consistent with HK-Int 4, and therefore, considers that the withdrawal of HK Int-4 should not change the understanding of the accounting requirements.

The Committee also agreed with the staff and Leases Panel recommendation to delete a Q&A regarding the classification of land and building leases (currently available on the Institute's website) as HKFRS 16 eliminates the distinction between operating and finance leases for lessees.

HK-Int 4 and the Q&A will be withdrawn when HKFRS 16 becomes effective. SSD will issue a member circular to inform members about the issuance of HKFRS 16 and the FRSC's thought process on the withdrawal of HK-Int 4 and the Q&A.

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The Committee also noted:

- the Panel's comments that the challenges in applying HKFRS 16 is more so in the gathering of data on leases that were not required to be on balance sheet under HKAS 17, the determination of new estimates such as the discount rate for the accounting of lease liability and the identification of transaction that contain a lease; and
- SSD's plans to organize training events on the implementation of HKFRS 16 that covers the perspective of preparers that have

commenced implementation and to consider the use of the Institute's Aplus magazine to share any key matters pertaining to HKFRS 16.

## 5. **Common control combinations**

The Committee considered a staff draft consultation document, which was prepared through its Panel, for the FRSC's planned outreach on the application of AG 5 *Merger Accounting for Common Control Combinations*.

The Committee noted FRSC members comments to consider widening the scope of the consultation to understand the various accounting methods and application of those methods for all types of common control combinations, and not to focus on a review of the application of AG 5. The Committee also noted that although AG 5 provides broad principles on the use of merger accounting for common control combinations, the method of accounting has developed in more than one way in practice.

The Committee requested staff to consider the process and consequential impact of the following three outreach methods: SSD

- Issuing a request for information for public comment on the application of AG5 in the format of a post-implementation review;
- Issuing a request for information for public comment on the various accounting methods, and application of those methods, for all types of common control combinations. A draft consultation document accompanying this method will be drafted for the FRSC's consideration at its next meeting;
- Conducting a targeted closed-door outreach on the various accounting methods, and application of those methods, for all types of common control combinations. No official consultation document will be issued under this outreach method.

The Committee will consider the three outreach methods and scope at its next meeting.

## 6. **Insurance Contracts**

The Committee noted SSD's activities on the Insurance Contracts project and that the IASB's tentative decisions as at the Board's April 2016 meeting on ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* are broadly consistent with the Institute's views and recommendations.

## 7. **Revenue**

The Committee noted SSD's activities on the implementation of HKFRS 15 *Revenue from Contracts with Customers* including:

- further articles for the Aplus magazine, which are prepared through the FRSC's Revenue Panel; and
- SSD's discussions with the Institute's Insurance Regulatory Liaison Group and the Revenue Panel on the impact of HKFRS 15 to the insurance broking industry.

**8. Companies Ordinance**

The Committee noted SSD and the Companies Ordinance (Financial Reporting) Panel activities, including:

- the preparation of a draft Q&A on the application of section 436 of Companies Ordinance Cap. 622 to financial statements prepared under the requirements of another Hong Kong Ordinance; and
- the proposed revisions to Accounting Bulletin 3 *Guidance on Disclosure of Directors' Remuneration* and Accounting Bulletin 4 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*.

The Committee also noted that SSD has been keeping an open communication with staff of the Companies Registry on the Institute's request for amendments (relating to financial reporting matters) to the Hong Kong Companies Ordinance Cap. 622 and its subsidiary legislation.

**9. Convergence project**

The Committee provided comments on its draft letter to Council regarding the mechanism for the maintenance of convergence between China Accounting Standards for Business Entities and IFRS/HKFRS. A revised draft letter will be considered at the next FRSC meeting.

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**10. Other business**

The Committee noted that in April 2016 the International Valuation Standards Council issued four exposure drafts (EDs) that discuss valuation bases, approaches and methods. The Committee agreed that SSD should consider the need to respond to the EDs with the Valuation Advisory Panel.

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advisory  
panel

There being no further business, the meeting closed at 11:15 a.m.

SHELLEY SO  
CHAIR

5 May 2016