



Minutes of the 240th meeting of the Financial Reporting Standards Committee held on Tuesday, 12 December 2017 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), Deloitte Touche Tohmatsu
Mr. James Fawls, HSBC
Ms. Candy Fong, Foremost Advisers Ltd
Mr. Joe Ng, Ernst & Young
Ms. Kelly Kong, Jardine Matheson & Co., Limited
Ms. Susanna Lau, Securities and Futures Commission
Mr. Steve Ong, Stock Exchange of Hong Kong Limited
Mr. Simon Riley, BDO Limited
Mr. Gary Stevenson, RSM Hong Kong
Ms. Sanel Tomlinson, KPMG
Ms. Florence Wong, Financial Reporting Council
Mr. Guochang Zhang, The University of Hong Kong

Staff in attendance: Mr. Chris Joy, Executive Director, Standards & Regulation
Ms. Christina Ng, Director, Standard Setting
Ms. Kam Leung, 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
Ms. Daisy Xia, Manager, Standard Setting

Apologies: Mr. Gary Poon, Poon & Co.

Action

1. Minutes, work program and liaison log

The Committee approved and the Chairman signed the minutes of the 239th meeting.

The Committee noted the developments outlined in the FRSC and SSD work program and liaison log. In particular, the Committee noted that SSD proposed the following agenda items to the Inland Revenue Department for its upcoming Annual Meeting.

- (i) tax treatment for transitional adjustments arising from adoption of HKFRS 15 *Revenue from Contracts with Customers*; and
- (ii) taxability of variable considerations recognized under HKFRS 15.

2. Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Committee noted that the European Commission amended its legislature to provide insurance businesses of a banking conglomerate the option to defer the application of IFRS 9 until 1 January 2021 (the effective date of IFRS 17). The Committee also noted that the IASB has confirmed that it will not provide a similar option under IFRS 9.

One Hong Kong stakeholder met with FRSC Chair and SSD to enquire whether a similar option will be provided under HKFRS or IFRS. The stakeholder was informed that any amendments to HKFRSs are subject to a public consultation.

SSD will monitor any further developments.

SSD

3. **IFRS 17 Insurance Contracts**

The Committee reaffirmed that it considers IFRS 17 to be a high quality standard that will lead to companies reporting meaningful information to stakeholders compared to the existing reporting standard. The Committee believed that, if issued and applied, HKFRS 17 will therefore improve Hong Kong insurance companies' global standing as well as maintain Hong Kong as a leading financial centre.

The Committee noted a letter from the Hong Kong Federation of Insurers (HKFI) dated 11 December. The Committee again considered, in depth, concerns about the effective date and about whether other jurisdictions that apply IFRS Standards will apply IFRS 17 consistently and/or on the same effective date.

The Committee decided that, on balance, it should approve and issue HKFRS 17 with the same effective date as IFRS 17 but will undertake an ongoing monitoring and assessment of international and Hong Kong developments. This ongoing reassessment will enable the Committee to objectively consider how to respond to global developments and implementation challenges, including working in coordination with the IASB and other standard-setting bodies from around the world and whether it is necessary to deviate from IFRS 17, which the Committee can do in some exceptional cases. Twelve FRSC members agreed, one member disagreed and one member was not present.

The Committee also agreed that the Institute should inform the IASB about these concerns and write a letter to Hong Kong authorized Insurers to communicate the Committee's considerations when it approved the issuance of HKFRS 17. In addition, the Committee noted that the Institute will liaise closely with the Insurance Authority and HKFI on future developments relating to HKFRS 17.

[Post-meeting note: HKFRS 17 was issued on 4 January 2018 and the letters to IASB and Hong Kong authorized Insurers, were sent on 3 and 4 January 2018, respectively.

The letters can be accessed at the following links:

http://www.hkicpa.org.hk/file/media/section6_standards/standards/17iiq/lettertoIASB.PDF

http://www.hkicpa.org.hk/file/media/section6_standards/standards/17iiq/ltai.pdf

4. **Accounting policy and definition of materiality**

(a) **ED/2017/5 Accounting Policies and Accounting Estimates and ED/2017/6 Definition of Material**

The Committee considered the staff's preliminary views on ED/2017/5 and ED/2017/6 and provided input on the draft submission. The Committee agreed to finalise its submission out-of-session.

SSD

(b) **Accounting policy changes (Upcoming proposed amendments to IAS 8)**

The Committee received background on the Accounting Policy Changes project and agreed it is a high priority project.

The Committee commented that although IFRS Interpretations Committee (IFRIC) agenda decisions are non-authoritative, it usually can result in changes in accounting practice. However, the Committee is concerned that many constituents may not be aware of IFRIC agenda decisions because they do not lead to amendments to standards. Therefore, the Committee proposed to raise this concern as a discussion item at its January meeting with the IASB.

[Post-meeting note: On 29 January 2018, IASB representatives explained that each IFRIC agenda decision has gone through proper due process, including a 60-day comment period. In addition, all IFRIC agenda decisions are now clearly organized, by standards, on the IASB's new website, which should provide constituents clearer references.]

(c) IFRS Practice Statement 2 *Making Materiality Judgements*

The Committee noted that the IASB has issued Practice Statement 2 and decided that the document should be considered for issuance holistically with other materiality related projects when they are completed. Some Committee members suggested to consider the interaction with Auditing Guidelines.

5. **Amendments to HKFRS 9 – modification or exchanges of financial liabilities**

The Committee noted that the IASB issued Amendments to IFRS 9 in October, which addressed two accounting matters:

- (a) prepayment features with negative compensation; and
- (b) modification or exchanges of financial liabilities.

(a) Prepayment features with negative compensation

The Committee was reminded that it had approved the amendment relating to loans that contain prepayment features with negative compensation out-of-session in view that entities might want to early adopt the amendment when they initially apply HKFRS 9 *Financial Instruments* on 1 January 2018. The amendments were issued on 27 November.

(b) Modification or exchanges of financial liabilities

The Committee noted that the IASB's Amendments to IFRS 9 also contain amendments to the Basis for Conclusions. These amendments relate to an IFRIC tentative agenda decision in March which concluded that the requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. However, comment letters received on the tentative agenda decision showed that there is diversity in practice in accounting for this matter and given the potential impact to the financial statements, many respondents preferred an Interpretation or an amendment to IFRS 9 (which would go through a more authoritative mechanism) instead of an IFRIC agenda decision.

In light of this, IFRIC referred the matter to the IASB. The IASB agreed with the IFRIC technical conclusion and decided to highlight in the Basis for Conclusions the relevant accounting requirements in

view of the concerns received. The IASB concluded that due process requirements for finalising these amendments were met.

Consistent with its thinking in agenda item 4(b), some Committee members did not agree with the process in which these amendments were made especially as the amendments are likely to change current accounting practice. Other members noted that the amendments had obtained the IFRS Due Process Oversight Committee's approval. As such, the Committee proposed to also raise this as a discussion item at its January meeting with the IASB.

The Committee also approved this amendment regarding modifications or exchanges of financial liabilities.

In view of the potential impact of the amendments to Hong Kong entities, the Committee suggested that the SSD communicates the amendments to members via education sessions and other channels.

SSD

[Post-meeting note: On 29 January 2018, IASB representatives explained that the accounting treatment for modification or exchange of financial liabilities is clear in IFRS 9. This led the IASB to agree with IFRIC's recommendation not to issue any amendments or interpretations to the standard. In addition, they confirmed that the due process requirements for issuing the Amendments to IFRS 9 were met.]

6. Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard ("SME Standard")

The Committee received an update on SSD's outreach activities with the Inland Revenue Department and the Hong Kong Association of Banks regarding the usefulness of the SME Standard. SSD planned to study the scope and requirements of SME standards of other jurisdictions in the Asian-Oceanian Standard-Setters Group and to report back at the April 2018 meeting those findings for FRSC's consideration on whether to conduct a Post-implementation Review of the SME Standard. The Committee will also consider in April whether and, if so, how the SME Standard should be amended for HKFRS 9, HKFRS 15 and HKFRS 16 *Leases*.

SSD

FRSC

7. Other Business

One member asked whether the Hong Kong Stock Exchange will require IPO applicants to submit financial reports that incorporate the new HKFRSs, in particular, those that are effective for annual financial years beginning 1 January 2018. SSD will enquire and follow up on this matter.

SSD

There being no further business, the meeting closed at 11:45 a.m.

SHELLEY SO
CHAIR

14 February 2018