Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Minutes of the 244th meeting of the Financial Reporting Standards Committee held on Thursday, 26 July 2018 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
	Ms.	Candy Fong, Foremost Advisers Ltd
	Ms.	Susanna Lau, Securities and Futures Commission
	Ms.	Cynthia Leung, Financial Reporting Council
	Mr.	Steve Ong, Stock Exchange of Hong Kong Limited (Dial-in)
	Mr.	Simon Riley, BDO Limited
	Mr.	Gary Stevenson, RSM Hong Kong
	Mr.	Jim Tang, KPMG (on behalf of Sanel Tomlinson)
	Ms.	Juliana Tse, Ernst & Young (on behalf of Joe Ng)
	Mr.	Guochang Zhang, The University of Hong Kong
Guest present:	Ms.	Vivian Lai, PricewaterhouseCoopers (for item 2 only)
Staff in attendance:	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.	Ramil Clemena, BlackRock Asset Management North Asia Ltd
	Mr.	James Fawls, HSBC
	Ms.	Kelly Kong, Jardine Matheson & Co., Limited
	Mr.	Gary Poon, Poon & Co.

Action

1. Minutes, Work Program and Liaison Log

The Committee approved and the Chairman signed the minutes of the 243rd meeting.

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

2. Accounting for Connection Fee under HKFRS 15 *Revenue from Contracts with Customers*

At its May meeting, the Committee discussed this subject and requested the views of the Ministry of Finance (MOF). At its July meeting, the Committee noted that the MOF's discussions on this subject are underway; and the Revenue Advisory Panel met in July to discuss this subject based on the fact pattern the FRSC was provided in May.

The Committee discussed two specific questions:

i. Should connection fees arising from contracts with property developers be recognised as revenue in full upon satisfying its performance obligation to completion of the contracts with property developers or should (a portion of) the connection fee be recognised as revenue over a longer period e.g. the period of supplying gas to house owners?

ii. Should a gas company recognise pipeline facilities that are in a housing area's courtyard? Such facilities typically include pipelines and gas pressure regulating boxes that are situated inside a courtyard but outside the houses?

On the first question, the Committee noted and concluded the following, taking into account the points raised by the Panel:

- Paragraph 17 of HKFRS 15 provides the criteria for when contracts should be combined and states that combination of contracts applies to contracts that are entered into at or near the same time with the same customer.
  Paragraph 22 states that an entity assesses the goods/services promised to a customer and identifies whether the promised goods/services are distinct performance obligations.
  Paragraph 24 explains that performance obligations may not be limited to the goods/services explicitly stated in the contract as a contract may include promises that are implied by an entity's customary business practices, published policies, or specific statements. The criteria for whether a promised good/service is distinct are provided in paragraph 27 and further explained in paragraphs 28-30.
  Paragraph 31 provides the principles for recognising revenue: an entity recognises revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service ('an asset') to a customer — a promised asset is transferred when (or as) the customer obtains control of the asset. Paragraph 33 explains that a customer has control of an asset when the customer (1) has the ability to direct the use of, and (2) obtain substantially all of the benefits from, the asset.

- There could be many contracts with different terms and conditions between a gas company and a property developer. A gas company should assess all facts and circumstances, including the structuring of the arrangements (e.g. whether a separate contract is entered into with the property developers and the house owners) and the nature of its promised goods/services (including implicit promises) following HKFRS 15. Based on the specific fact pattern provided to FRSC, because the gas company separately enters into a contract with a property developer for the connection of gas supply to a housing area and house owners are not bound by that contract to use the gas supplied by the gas company, it could be appropriate for the gas company to recognise connection fee as revenue in full upon satisfying its performance obligations to the property developer. The fact that a gas company has exclusive rights to connecting and supplying gas to a housing area, in and of itself, cannot determine the revenue recognition of connection fees.

On the second question, the Committee considered that the absence of legal title over the courtyard does not necessarily preclude the gas company from having control over the pipeline facilities. In determining the recognition of the pipeline facilities, an entity should consider all the facts and circumstances including whether or not the pipeline facilities fall in the scope of HKAS 16 *Property, Plant and Equipment* and meet the recognition criteria under HKAS 16.

SSD will share the FRSC's views with MOF. SSD

3. Better Communication in Financial Reporting

The Committee received an update on the IASB's Better Communication in Financial Reporting initiative.

Principles of Disclosure (POD)

In 2017, the IASB published a Discussion Paper (DP) on POD to respond to concerns that companies do not provide enough relevant information, provide too much irrelevant information and do not communicate effectively through the financial statements.

Based on feedback received on the DP, the IASB tentatively decided:

- To explore, in the Primary Financial Statements project:
  - Improving the primary financial statements and the notes;
  - Requiring the presentation of EBIT and EBITDA;
  - Requiring the presentation of unusual or infrequently occurring items; and
  - Requiring the fair presentation of performance measures;
- Not to pursue:
  - Providing guidance on the use of formatting in the financial statements;
  - Providing guidance on the location of accounting policy disclosures;
  - Relocating disclosure objectives and requirements that are currently in IFRS Standards;
  - Prescribing the location of information;
  - Prescribing which accounting policies to disclose;
  - Developing the principles of effective communication any further; and
  - Developing a central set of disclosure objectives;
- To add a Targeted Standards-level Review project (more details below); and
- To develop guidance and examples for inclusion in the IFRS Practice Statement 2 *Making Materiality Judgements* that explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

The Committee considered that publishing the principles of effective communication is a fundamental first step in improving the financial reporting disclosure problem and recommended to reiterate the importance of the principles of effective communication to the IASB.

Primary Financial Statements

Over the years, stakeholders expressed the following concerns about the quality of primary financial statements:

- a lack of comparability between entities, including line items and subtotals;
- insufficient and inconsistent disaggregation of information; and
- an increased use of alternative performance measures that lack transparency.

Therefore, the IASB added a research project Primary Financial Statements to respond to the need for better performance reporting.

The Committee noted the following key IASB tentative decisions:

- To require the presentation of EBIT subtotal, which is profit before finance income/expense and tax, in the statement of financial performance;
- To require the presentation of 'income/expenses from investments', which is income/expenses from assets that generate a return individually and largely independently of other resources held by the entity, before the EBIT subtotal;

- To require the presentation of 'integral' associates and joint ventures separately from 'non-integral' associates and joint ventures in the statement of financial performance and the statement of cash flows;
- To require the presentation of a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity, as well as specific disclosures to supplement the measure; and
- To remove from IAS 7 *Statement of Cash Flows* the options for the classification of interest and dividends paid and of interest and dividends received.

<u>Targeted Standards-level Review of Disclosures</u>
Feedback from the POD DP indicated that there is a lack of disclosure objectives in IFRS Standards and the existing disclosure requirements have inconsistent language, all of which may have led to irrelevant or unuseful information disclosed. The IASB considered that developing guidance for its own use when developing disclosure requirements could address this problem.

The Committee noted that the IASB plans to test its drafting guidance on the existing disclosure requirements under IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement*. The Committee considered the IASB should test its drafting guidance on IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* as information provided in these two areas are most problematic, but noted that the IASB is already undertaking a separate project on Goodwill and Impairment which may introduce new or revised disclosure requirements under those standards.

The Committee decided this project is not FRSC's high priority.

4. <u>Exposure Draft ED/2018/1 *Accounting Policy Changes*</u>

The Committee discussed the staff's revised draft submission and provided further input for the final submission, to be approved out-of-session. SSD

[Post-meeting note: The submission on ED/2018/1 was sent to the IASB on 2 August 2018.]

5. <u>Goodwill and Impairment project</u>

The Committee received an update on the IASB's on Goodwill and Impairment project. In particular, the Committee noted the following latest IASB tentative decisions:

- To remove the use of pre-tax inputs and to remove the requirement to exclude 'cash flows from future restructuring or enhancement' from the value-in-use calculation;
- To explore methods to simplify goodwill accounting by reconsidering amortisation of goodwill and to pursue possible relief from the mandatory annual quantitative impairment testing of goodwill; and
- To explore new disclosure requirements to help users assess the performance of the acquired business in the subsequent years following the business combination.

FRSC member Professor Zhang was recommended to provide academic views on goodwill accounting and to bring the discussion back to the September FRSC meeting.

6. Companies Ordinance

The Committee noted that the HKICPA's key recommendations on improvements to the Companies Ordinance Cap. 622, for example, group reporting exemptions and updating Schedule 1, have been incorporated into the Companies (Amendment) Bill 2018. Other HKICPA recommendations have also been clarified through the Companies Registry's or HKICPA's FAQs and were therefore not incorporated in the Bill.

The Committee also noted that the Bills Committee met on 19 June 2018, and HKICPA attended the meeting to express overall support for the Bill.

7. Insurance Contracts

The Committee received an update on the following major developments:

- In June, the IASB tentatively decided to put through narrow-scope amendments to IFRS 17 *Insurance Contracts*, which will be exposed through the Annual Improvements Process.
- In July, the Institute's Insurance Regulatory Advisory Panel (IRAP) met with the Insurance Authority (IA) to discuss possible ways to leverage HKFRS 17 when developing IA's new risk-based capital regime. The meeting concluded that, as prudential regulations and financial reporting requirements have different objectives, there will be some reconciling differences between HKFRS 17 and the new regime.
- In July, the Board and Technical Experts Group of the European Financial Reporting Advisory Group (EFRAG) separately met to discuss IFRS 17, in particular the feedback received from the CFO Forum, a reinsurance company and the investor community.
  Summaries of these meetings are available on [https://www.efrag.org/News/Public-158/EFRAG-Update-July-2018].
- SSD has been sharing and discussing the issues reported through the Hong Kong Insurance Implementation Support Group with staff of other national standard-setters.

8. Update on Major International Meetings

The Committee noted that, in early July:

- HKICPA was invited to the Accounting Standards Committee of Germany's 20th anniversary event and the EFRAG Board meeting in Berlin for an exchange of views.
  At the EFRAG Board meeting, HKICPA representative shared HKICPA's standard-setting process, with particular focus on the endorsement of IFRS 17 in Hong Kong, and other major projects. Other invited standard-setters were the Australian Accounting Standards Board, the Canadian Accounting Standards Board, the Accounting Standards Board of Japan and the US Financial Accounting Standards Board. This meeting was held in private.

- HKICPA participated in the IASB Accounting Standards Advisory Forum meeting. HKICPA presented findings from its joint investor survey with Organismo Italiano di Contabilità, which explained the economic substance of mergers and acquisitions with third parties and related parties. HKICPA also represented the views of the Asian-Oceanian Standard-Setters Group on the IASB's tentative approach on the accounting for Business Combinations under Common Control. The ASAF meeting papers are available on the

IASB website [https://www.ifrs.org/news-and-events/calendar/2018/july/accounting-standards-advisory-forum/].

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

SHELLEY SO
CHAIR

17 August 2018