



Minutes of the 275th meeting of the Financial Reporting Standards Committee held on Tuesday, 6 December 2022 at 8:30 a.m. via videoconference.

- Members present: Mr. Jim Tang (Deputy Chairman), KPMG
Ms. Kathryn Ashley, HSBC
Ms. Fanny Hsiang, BDO Limited
Ms. Vincyy Lai, Jardine Matheson & Co., Limited
Mr. Mateusz Lasik, Deloitte Touche Tohmatsu
Mr. Kenneth Lau, Crowe (HK) CPA Limited
Mr. Joe Ng, Ernst & Young
Mr. Ghee Peh, IEEFA
Mr. Richard Poon, AIA Group
Mr. William Wong, Stock Exchange of Hong Kong Limited
Ms. Lisa Zhang, PricewaterhouseCoopers
- Staff in attendance: Ms. Cecilia Kwei, Director, Standard Setting
Ms. Eky Liu, Deputy Director, Standard Setting
Mr. George Au, Associate Director, Standard Setting
Ms. Carrie Lau, Associate Director, Standard Setting
Ms. Kennis Lee, Associate Director, Standard Setting
Ms. Katherine Leung, Associate Director, Standard Setting
Mr. Anthony Wong, Associate Director, Standard Setting
- Apologies: Mr. Gary Stevenson (Chairman), RSM Hong Kong
- Observer: Mr. Ambrose Wong, Accounting and Financial Reporting Council

Action

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

The Committee approved the minutes of the 274th meeting.

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

Agenda decisions

The Committee also noted the IC finalised the following three agenda decisions in September 2022:

- Multi-currency Groups of Insurance Contracts (IFRS 17 *Insurance Contracts* and IAS 21 *The Effects of Changes in Foreign Exchange Rates*)
- Special Purpose Acquisition Companies: Accounting for Warrants at Acquisition
- Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*).

International Tax Reform-Pillar Two Model Rules

The Committee received an update on the IASB project *International Tax Reform-Pillar Two Model Rules* and agreed that it should be a medium priority project for the Institute considering that it only involves narrow-scope amendments to IAS 12 *Income Taxes*, and the complexity and judgement involved are not expected to be significant.

The Committee agreed with SSD's project plan, which includes responding to the forthcoming IASB's Exposure Draft and seeking feedback from the Income Tax/Deferred Tax Advisory Panel.

2. Abolition of the "MPF offsetting" arrangement in Hong Kong

At the October Committee meeting, a Committee member raised a question on the implications of the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (i.e. abolition of the "MPF offsetting" arrangement) on the accounting for long service payment in financial statements for the year ending on or after 31 December 2022. Subsequent to that meeting, a working group was set up to consider this issue.

At this meeting, the Committee received an update on the working group's discussions. The Committee noted that the working group members continued to express divergent views on the appropriate accounting for the abolition of the "MPF offsetting" arrangement after some extensive discussions. The Committee considered and agreed with SSD's proposed next steps on this issue, which include seeking the views of the IASB staff and the large accounting networks at the global level.

SSD

The Committee acknowledged that this is a highly complex issue and expected that a considerable amount of time will be needed for the Committee to address this issue. In particular, it is unlikely that a consensus will be reached in time before the upcoming December and March period-ends. Therefore, entities would need to in the meantime exercise judgement to determine an appropriate accounting policy for the abolition of the "MPF offsetting" arrangement based on the facts and circumstances, and where material provide relevant financial statements disclosures including significant accounting policies and judgements.

The Committee agreed to, depending on the outcomes of the proposed action plan, consider among other things undertaking standard setting activities with the aim of promoting consistent application and providing an orderly transition for entities in Hong Kong in the longer term.

3. IASB Exposure Draft (ED) Third edition of the IFRS for SMEs Accounting Standard

The Committee received an update on the feedback received from SSD staff's outreach activities on the ED, including the meeting with Small and Medium-sized Practitioners Committee and its Working Group on Technical Issues, since the October Committee meeting.

The Committee considered the feedback received and provided comments. Based on the feedback received to date, the Committee agreed that the Institute's submission to the IASB would primarily comment on the financial instruments and revenue sections unless significant comments on other sections of the standard are received from stakeholders. The Committee also noted that targeted outreach with preparers and users of financial statements is in progress. SSD will provide an update to the Committee and present a draft submission at the next meeting for the Committee's consideration.

SSD

4. **Issuance of HKFRS equivalent amendments to IAS 1 *Non-current Liabilities with Covenants***

The Committee noted that the IASB issued the Amendments to IAS 1 *Non-current Liabilities with Covenants* (2022 Amendments) in October 2022. The Committee considered that the 2022 Amendments have addressed stakeholders' concerns and taken up the major comments expressed in the Institute's comment letter. Also, the Committee considered that the 2022 Amendments do not affect the technical contents of HK Interpretation 5 (Revised) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* (HK Int 5 (Revised)) and its related questions and answers (Q&A), but agreed to add a reference to the 2022 Amendments to clarify that the local guidance remain relevant following the issuance of the 2022 Amendments. The Committee approved the issuance of the equivalent amendments to HKAS 1 *Non-current Liabilities with Covenants* in accordance with the Institute's international convergence policy, and the corresponding updates to HK Int 5 (Revised) and its related Q&A.

SSD

The Committee also considered and agreed with SSD's implementation support plan. The Committee noted that SSD has previously developed a draft educational material which reflected the Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* and incorporated the Committee's suggestions provided at prior meetings. The Committee agreed to update this draft educational material with respect to the 2022 Amendments, and provided suggestions on the fact patterns that could be included in the educational material.

SSD

[Post-meeting note: The amendments to HKAS 1 *Non-current Liabilities with Covenants*, the corresponding updates to HK Int 5 (Revised) and its Q&A were published on 15 December 2022.]

5. **Update on Council's approval of the action plan for setting up the Sustainability Standard Setting function at the Institute**

Further to the update at its October meeting, the Committee was provided with the relevant paper and minutes of the October Council meeting in relation to the endorsement of the Committee's recommendations regarding the SSD's action plan for setting up the sustainability standard setting function at the Institute.

6. **2022 Progress Report**

The Committee reviewed the SSD's progress made on the high priority projects and SSD's achievements this year, and thanked SSD for the work done in 2022.

7. **Other business**

Cash Received via Electronic Transfer as Settlement for a Financial Asset
A Committee member highlighted the IC deliberations regarding *Cash Received via Electronic Transfer as Settlement for a Financial Asset* and that the IC recommended the IASB finalise a related agenda decision at its June 2022 meeting.

This Committee member noted that after the agenda decision was referred to the IASB as part of the due process, the IASB neither objected to nor published the agenda decision. Instead, the IASB discussed the respondents' concerns of finalising the agenda decision and tentatively

decided to propose narrow-scope amendments to IFRS 9 for electronic cash transfers.

This Committee member raised a question as to whether an entity should change its accounting policy based on the IC conclusion when it prepares its upcoming financial statements. Another Committee member also highlighted a related issue as to whether the IC conclusion would have a wider implication on the accounting for other similar transactions, such as unrepresented cheques.

Given the IASB decided not to publish the agenda decision and is now undertaking standard-setting activities on this matter, the Committee considered that entities should exercise judgement in determining their accounting policy for electronic cash transfers and other similar transactions before the issuance of the narrow-scope amendments. Where material, entities should also consider providing relevant financial statements disclosures, including significant accounting policies and judgements.

Administrative matter

The Committee noted that they are welcome to propose agenda items for the next FRSC meeting by mid of January 2023.

There being no further business, the meeting closed at 10:15 a.m.

JIM TANG
DEPUTY CHAIRMAN

10 February 2023