HKFRS Update for 2009/10

4 March 2010

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Effective for 2009 Dec. Year-End

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
Amendments to HKFRS 2 *Vesting Conditions and Cancellations*	1 Jan. 2009
HKFRS 8 *Operating Segments*	1 Jan. 2009
HKAS 1 (Revised) *Presentation of Financial Statements*	1 Jan. 2009
HKAS 23 (Revised) *Borrowing Costs*	1 Jan. 2009
Amendments to HKFRS 1 and HKAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	1 Jan. 2009
Amendments to HKAS 32 and HKAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation*	1 Jan. 2009
HK(IFRIC) 13 *Customer Loyalty Programmes*	1 Jul. 2008
HK(IFRIC) 15 *Agreements for the Construction of Real Estate*	1 Jan. 2009
HK(IFRIC) 16 *Hedges of a Net Investment in a Foreign Operation*	1 Oct. 2008
Annual improvements to HKFRSs 2008	1 Jan. 2009
HK(IFRIC) 18 *Transfers of Assets from Customers*	1 Jul. 2009 (trans. date)
Amendments to HKFRS 7 *Improving Disclosure about Financial Instruments*	1 Jan. 2009
Amendments to HK(IFRIC) 9 and HKAS 39 *Embedded Derivatives*	Ended on/after 30 Jun. 2009

Updated from HKICPA, "HKFRS Update", 24 Aug. 2009

Effective after 2009-12 Year-End (1)

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
• HKFRS 1 (Revised) *First-time Adoption of HKFRS*	➢ 1 Jul. 2009
• Amendments to HKFRS 1 *Additional Exemptions for First-time Adopters*	➢ 1 Jan. 2010
• Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*	➢ 1 Jan. 2010
• HKAS 27 (Revised) *Consolidated and Separate Financial Statements*	➢ 1 Jul. 2009
• HKFRS 3 (Revised) *Business Combination*	➢ 1 Jul. 2009
• Amendments to HKAS 32 *Classification of Rights Issues*	➢ 1 Feb.2010
• Amendments to HKAS 39 *Eligible Hedged Items*	➢ 1 Jul. 2009
• HK(IFRIC) 17 *Distributions of Non-cash Assets to Owners*	➢ 1 Jul. 2009
• Annual Improvements to HKFRSs 2009	➢ 1 Jan. 2010 (unless specified)

Effective after 2009-12 Year-End (2)

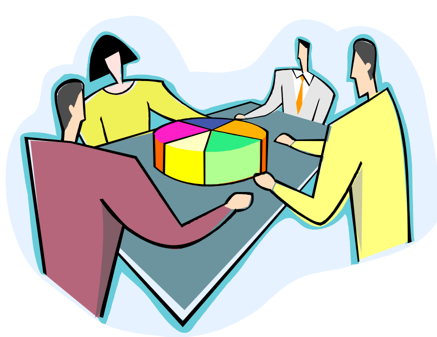
Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
• HKAS 24(Revised) *Related Party Disclosures*	➢ 1 Jan. 2011
• HKFRS 9 *Financial Instruments*	➢ 1 Jan. 2013
• HK(IFRIC) Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*	➢ 1 Jan. 2010
• Amendments to HK(IFRIC) 14 *HKAS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	➢ 1 Jan. 2011
• Amendments to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*	➢ Not specified
• Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*	➢ 1 Jul. 2010

Today's Agenda

Effective for 2009-10

Effective after 2009
(up to 2013 ……. too remote for 2013?)

HKFRS 8 Operating Segments



Core Principle and Scope

Core Principle

- An entity shall disclose information to enable users of its financial statements to evaluate
  - the nature and financial effects of the business activities in which it engages and
  - the economic environments in which it operates.

Scope

- HKFRS 8 applies to:
  - the separate or individual financial statements of an entity with listed debt and equity
  - the consolidated financial statements of a group with a parent with listed debt and equity
  - The segment information of an entity which chooses to follow HKFRS 8
- If a financial report contains both the parent's consolidated financial statements and separate financial statements,
  - segment information is required only in the consolidated financial statements.

Operating Segments

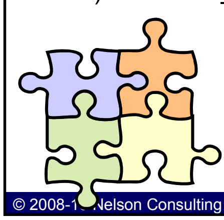
- An **operating segment** is a component of an entity:
  a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
  b) whose operating results are regularly reviewed by the entity's **chief operating decision maker** to
     - make decisions about resources to be allocated to the segment and
     - assess its performance, and
  c) for which discrete financial information is available.

A business activity might have not yet earned any revenue

For example: CEO, COO, or a group of executive directors

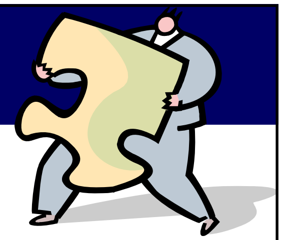
Not necessary be geographical areas or products

Operating Segments



- Not every part of an entity is necessarily an operating segment or part of an operating segment, say corporate headquarter

Reporting Segments



Reportable Segment

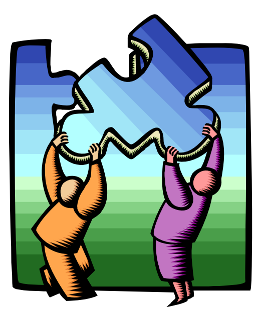
Operating Segments
↓
Aggregation Criteria
↓
Quantitative Thresholds
↓
Other Situations

- An entity shall report separately information about each operating segment that
  a) has been identified as operating segment or results from aggregating two or more of those segments under the **aggregation criteria**, and
  b) exceeds the **quantitative thresholds** ("10% or more test").
- There are also other situations in which separate information about an operating segment shall be reported.

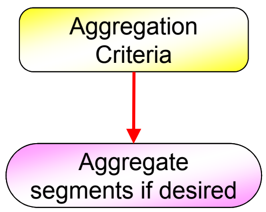
Reporting Segments

Aggregation Criteria

- Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.
  – For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar.



Reporting Segments



- Two or more operating segments may be aggregated into a single operating segment if
  - aggregation is consistent with the core principle of HKFRS 8,
  - the segments have similar economic characteristics, and
  - the segments are similar in each of the following respects:
    - a) the nature of the products and services;
    - b) the nature of the production processes;
    - c) the type or class of customer for their products and services;
    - d) the methods used to distribute their products or provide their services; and
    - e) if applicable, the nature of the regulatory environment, e.g., banking or public utilities.

Disclosure

- To give effect to the core principle, an entity shall disclose the following for each period for which an income statement is presented:
  - a) general information as described in HKFRS 8;
  - b) information about
    - reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss,
    - segment assets, and
    - the basis of measurement; and
  - c) reconciliations of the totals of
    - segment revenues,
    - reported segment profit or loss,
    - segment assets, and
    - other material segment items

    to corresponding entity amounts.

General Information

Other Information

Reconciliations

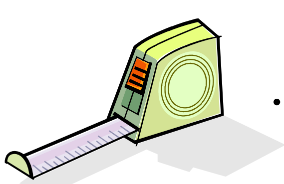
Measurement

- The amount of each segment item reported shall be the measure reported to the chief operating decision maker
  - for the purposes of making decisions about allocating resources to the segment and assessing its performance.

- Compared with HKAS 14,
  - HKAS 14 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
  - HKAS 14 defines segment revenue, segment expense, segment result, segment assets and segment liabilities
  - HKFRS 8 does not define these terms but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

Measurement

- Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if
  - they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker.
- Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment.
- If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.



Entity-Wide Disclosures

- All entities subject to HKFRS 8, including those that have a single reportable segment, are also required to have certain entity-wide disclosures, including:
  - the revenues from external customers for each product and service, or each group of similar products and services
  - certain geographical information
  - information about the extent of its reliance on its major customers.

Products and Services

Geographical Areas

Major Customers

Transition and Effective Date

- An entity shall apply HKFRS 8 in its annual financial statements for <u>periods beginning on or after 1 January 2009</u>.
- Earlier application is permitted.
- If an entity applies this HKFRS in its financial statements for a period before 1 January 2009, it shall disclose that fact.
- <u>Segment information for prior years</u> that is reported as comparative information for the initial year of application <u>shall be restated</u> to conform to the requirements of this HKFRS, unless
  - the necessary information is not available and
  - the cost to develop it would be excessive.

Presentation of Financial Statements

(HKAS 1 Revised in 2007)

Complete Set of Fin. Statements

- A complete set of financial statements comprises:
  - a) a statement of financial position as at the end of the period;
  - b) a statement of comprehensive income for the period;
  - c) a statement of changes in equity for the period;
  - d) a statement of cash flows for the period;
  - e) notes, comprising a summary of significant accounting policies and other explanatory information; and
  - f) a statement of financial position as at the beginning of the earliest comparative period
    - when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
    - when it reclassifies items in its financial statements.
- An entity may use titles for the statements other than those used in HKAS 1.

Previously, we call it "Balance Sheet"

Previously, we call it "Income Statement"

3 years' "balance sheets"

Complete Set of Fin. Statements

Case

- HKEx early adopted HKAS1 (revised) in 2007 and states in 2007 Annual Report that:
  - The early adoption of these HKFRSs does not have any financial impact to the Group's accounting policies.
  - HKAS 1 Revised affects certain disclosures of the financial statements. Under the revised standard,
    - the Profit and Loss Account is renamed as the "Income Statement",
    - the Balance Sheet is renamed as the "Statement of Financial Position" and
    - the Cash Flow Statement is renamed as the "Statement of Cash Flows".

Complete Set of Fin. Statements

Case

- Hong Kong Housing Society (a non-government entity) also early adopted HKAS1 (revised) in 2008 and states in 2008 Annual Report that:
  - HKAS 1 (Revised), which is effective for accounting periods beginning on or after 1st January 2009, affects certain disclosures of the financial statements.
  - Under the revised standard,
    - the Income and Expenditure Account is renamed as the "Statement of Comprehensive Income",
    - the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows".
  - All income and expenses arising from transactions are presented under the "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Net Assets".

Structures & Content of Fin. Statements

Complete Set of Financial Statements		Previous title or changes
Statement of Financial Position as at the end of the period		Previous title: "Balance Sheet"
To use a single statement to present all items of income and expense	To use two statements to present all items of income and expense	
Statement of Comprehensive Income for the period	Income Statement for the period	No title change
	Statement of Comprehensive Income for the period	New statement
Statement of Changes in Equity for the period		No title change (but restructured)
Statement of Cash Flows for the period		Previous title:"Cash Flow Statement"
Notes		No title change
A statement of financial position as at the beginning of the earliest comparative period, if required		New requirement

Statement of Comprehensive Income

Complete Set of Financial Statements		Previous title or changes
To use a single statement to present all items of income and expense	To use two statements to present all items of income and expense	
Statement of Comprehensive Income for the period	Income Statement for the period	No title change
	Statement of Comprehensive Income for the period	New statement

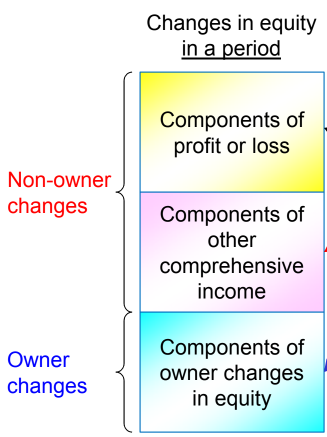
Statement of Comprehensive Income

Non-owner changes

Owner changes

- As part of the improvement project in presenting financial performance of an entity,
  - HKAS 1 revised in 2007
    - Defines clearly that owners are holders of instruments classified as equity.
    - Requires that changes in equity (same as net assets) of an entity during a period are separated into two categories:
      1. **Non-owner changes in equity** – represent all other changes in equity that are also the items of income and expense recognised during a period
      2. **Owner changes in equity** – represent changes arising from transactions with owners in their capacity as owners

Statement of Comprehensive Income



- HKAS 1 requires that
  - The non-owner changes in equity during a period are further separated into two categories:
    1. Components of "profit or loss"; and
    2. Components of "other comprehensive income".
  - All owner changes in equity must be
    - presented separately from non-owner changes in equity and
    - presented in the statement of changes in equity.

Statement of Comprehensive Income

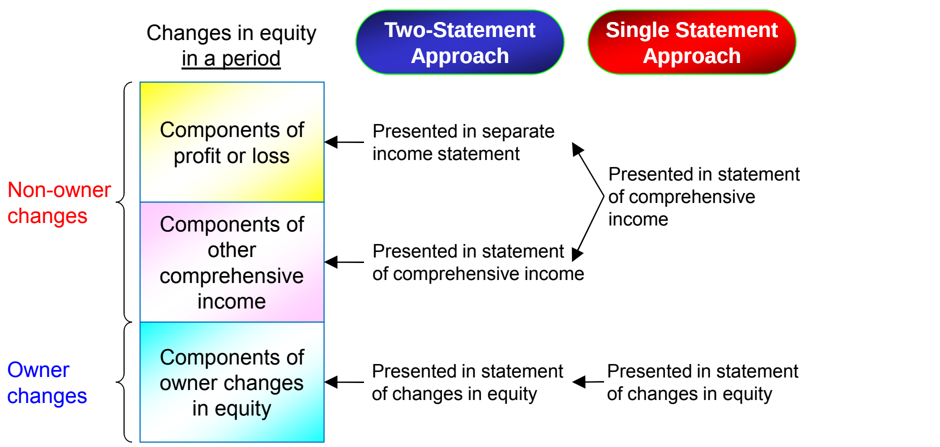
Changes in equity in a period

Non-owner changes: Components of profit or loss; Components of other comprehensive income

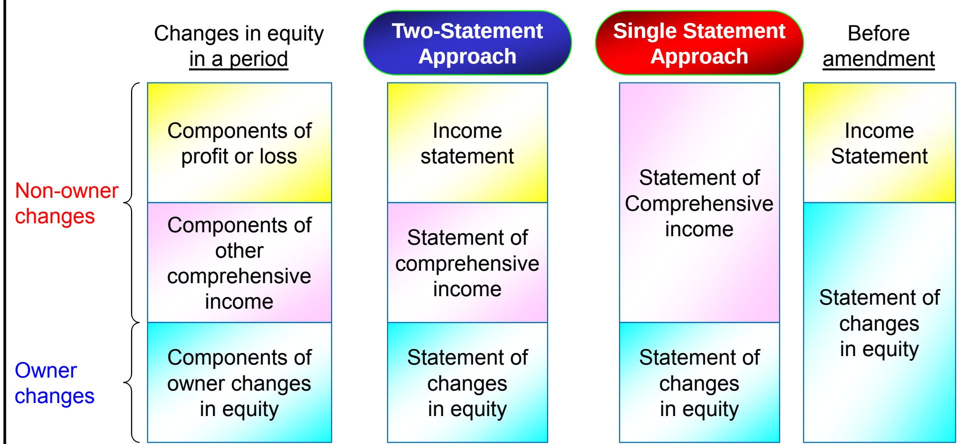
Two-Statement Approach **Single Statement Approach**

- HKAS 1 revised in 20007 requires an entity to present such non-owner changes in equity in a period in the statement of comprehensive income by using either:
  1. Single statement approach – present all items of income and expense recognised in a period in a single statement of comprehensive income, or
  2. Two-statement approach – present all items of income and expense recognised in a period in 2 statements:
     a. a statement displaying components of profit or loss (i.e. a separate income statement) and
     b. a second statement
        – beginning with profit or loss and
        – displaying components of other comprehensive income (i.e. a statement of comprehensive income)

Statement of Comprehensive Income

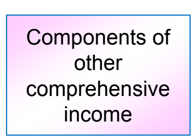


Statement of Comprehensive Income



Statement of Comprehensive Income

- Other comprehensive income
  - Comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.



Statement of Comprehensive Income

Example

- The components of other comprehensive income include:
  1. changes in revaluation surplus recognised in accordance with HKAS 16 *Property, Plant and Equipment*;
  2. changes in revaluation surplus recognised in accordance with HKAS 38 *Intangible Assets*;
  3. actuarial gains and losses on defined benefit plans recognised in accordance with HKAS 19 *Employee Benefits*;
  4. gains and losses arising from translating the financial statements of a foreign operation in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*;
  5. gains and losses on remeasuring available-for-sale financial assets in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*; and
  6. the effective portion of gains and losses on hedging instruments in a cash flow hedge recognised in accordance with HKAS 39.

Sourced from Intermediate Financial Reporting (2008) by Nelson Lam and Peter Lau

Statement of Comprehensive Income

Components of other comprehensive income

- Other comprehensive income
  - their components classified by nature to be reported in the statement of comprehensive income and to be presented either:
    1. net of related tax effects, or
    2. before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.
  - the amount of income tax relating to each component, including reclassification adjustments, either
    1. in the statement of comprehensive income or
    2. in the notes.

Statement of Comprehensive Income

Example

- The presentation of components of other comprehensive income in a single statement approach is illustrated in HKAS 1 net of tax effects or before tax effects with one amount shown as an item as follows:

Net of related tax effects	2009	2008
Other comprehensive income for the year, after tax:		
Exchange differences on translating foreign operations	$ 4,000	$ 8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
Other comprehensive income for the year, net of tax	(14,000)	28,000

Statement of Comprehensive Income

Example

Before related tax effects with one amount shown for the aggregate amount of income tax relating to those components

	2009	2008
Other comprehensive income:		
Exchange differences on translating foreign operations	$ 5,334	$ 10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to components of other comprehensive income	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000

Statement of Comprehensive Income

Example

- Disclosure of tax effects relating to each component of other comprehensive income can be made in the statement of comprehensive income or in the notes. HKAS 1 sets out an example to disclose the tax effects relating to each comprehensive income as follows:

	2009		
	Before-tax Amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	$ 5,334	$ (1,334)	$ 4,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)
Cash flow hedges	(667)	167	(500)
Gains on property revaluation	933	(333)	600
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)
Share of other comprehensive income of associates	400	–	400
Other comprehensive income	(18,667)	4,667	(14,000)

Statement of Comprehensive Income

Components of other comprehensive income

- Other comprehensive income also comprises "reclassification adjustments".
  - Reclassification adjustments are defined as:
    - amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.
- An entity is required to disclose reclassification adjustments relating to components of other comprehensive income either:
  - in the statement of comprehensive income, or
  - in the notes (then presents the components of other comprehensive income after any related reclassification adjustments in the statement of comprehensive income)

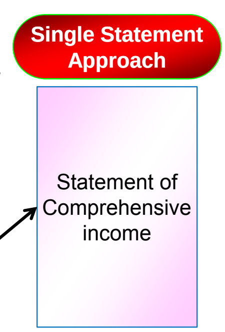
Statement of Comprehensive Income

Example

- Reclassification adjustments arise, for example:
  1. on disposal of a foreign operation (see HKAS 21);
  2. on derecognition of available-for-sale financial assets in accordance with HKAS 39 (see Chapter 17); and
  3. when a hedged forecast transaction affects profit or loss in accordance with HKAS 39 in relation to cash flow hedges.
- Reclassification adjustments do not arise:
  1. on changes in revaluation surplus recognised in accordance with HKAS 16 or HKAS 38; or
  2. on actuarial gains and losses on defined benefit plans recognised in accordance with HKAS 19.
- These two components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised. Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income.

Statement of Comprehensive Income

- In the statement of comprehensive income (i.e. single statement approach), an entity is required to at least include some line items that present the amounts for the period
- For example, the following amounts should be presented:
  1. revenue
  2. finance costs
  3. profit or loss
  4. each component of other comprehensive income classified by nature
  5. total comprehensive income



<u>Total comprehensive income</u> is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

Statement of Comprehensive Income

Under the Two-Statement Approach, these items are presented in the separate income statement.

Two-Statement Approach

Income statement

Statement of comprehensive income

1. revenue
2. finance costs
3. profit or loss
4. each component of other comprehensive income classified by nature
5. total comprehensive income

Under the Two-Statement Approach, these items are presented in the statement of comprehensive income.

Statement of Comprehensive Income

Example

Statement of comprehensive statement (under Two-Statement Approach)

	2009	2008
Profit for the year	$ 121,250	$ 65,500
Other comprehensive income:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Income tax relating to components of other comprehensive income	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000
Total comprehensive income for the year	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
Non-controlling interest	21,450	18,700
	107,250	93,500

Statement of Comprehensive Income

Case

Consolidated statement of comprehensive income

香港交易所 HKEx

	2008 $'000	2007 $'000
Profit attributable to shareholders	5,128,924	6,169,278
Other comprehensive income:		
Available-for-sale financial assets:		
Change in fair value during the year	111,494	63,421
Change in fair value on maturity	(54,451)	(9,951)
Less: Reclassification adjustment:		
Gains included in profit or loss on disposal	(4,678)	–
Deferred tax	(8,565)	(8,460)
	43,800	45,010
Cash flow hedges:		
Fair value gains of hedging instruments	–	132
Less: Reclassification adjustments:		
Gains reclassified to profit or loss as information technology and computer maintenance expenses	–	(70)
Gains reclassified to profit or loss as net investment income	–	(62)

Statement of Comprehensive Income

Case

SBERBANK Established in 1841 By your side

Consolidated Statement of Comprehensive Income

	Note	2008	2007
in millions of Russian Roubles			
Interest income	22	619,952	428,666
Interest expense	22	(241,795)	(175,905)
:		:	:
Income tax expense	28	(32,175)	(33,260)
Profit for the year		**97,746**	**106,489**
Other comprehensive income			
Gains on remeasurement of premises	12	74,819	–
(Losses)/ gains on investment securities available for sale		(42,445)	964
Foreign currency translation gains less losses		101	–
Deferred income tax relating to components of other comprehensive income	28	(5,597)	(231)
Other comprehensive income for the year, net of tax	27	**26,878**	**733**
Total comprehensive income for the year		**124,624**	**107,222**

Statement of Comprehensive Income

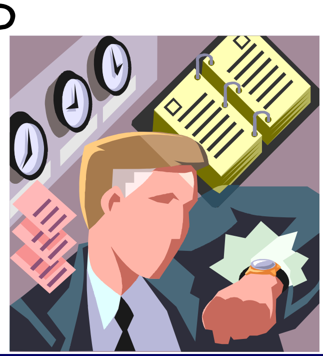
Case

SBERBANK
Established in 1841
By your side

27. Disclosure of Components of Other Comprehensive Income

In millions of Russian Roubles	Note	2008	2007
Premises and equipment:			
• Gains on remeasurement of premises	12	74,819	–
Investment securities available for sale:			
• Losses / gains on operations with securities		(47,672)	1 652
• Impairment of investment securities available for sale	11	6,259	–
• Reclassification adjustments for gains included in profit or loss		(1,032)	(688)
Foreign currency translation gains less losses		101	–
Other comprehensive income for the year before tax		**32,475**	**964**
Deferred income tax relating to components of other comprehensive income			
• Premises and equipment remeasurement		(14,124)	–
• Investment securities available for sale		8,527	(231)
Other comprehensive income for the year, net of tax		**26,878**	**733**

Annual Improvement Project 2008



Introduction

- Annual Improvement Project
  - A vehicle for making non-urgent but necessary amendments to IFRS (and consequentially HKFRSs)
  - Introduced by the IASB in 2007 and issued each year
  - 2008 Annual Improvement Project is the first one
- The project has two parts:
  - Part I
    - contains amendments that result in accounting changes for presentation, recognition or measurement purposes, with the IASB's rationale included in related Bases for Conclusions.
  - Part II
    - contains amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

2008 Project has

24 Amendments to 15 HKFRSs

11 Amendments to 9 HKFRSs

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Today's Agenda

2008 Annual Improvement Project Part I

2008 Annual Improvement Project Part II

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Part I: Summary

HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS 1	Presentation of Financial Statements
HKAS 16	Property, Plant and Equipment
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 23	Borrowing Costs
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates and HKAS 31 Interests in Joint Ventures
HKAS 29	Financial Reporting in Hyperinflationary Economies
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS 41	Agriculture

Amendments to HKAS 1

HKAS 1 *Presentation of Financial Statements* (as revised in 2007)

- Previously, some considered that
  - HKAS 1.71 implied that financial liabilities classified as "held for trading" in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* <u>are always required to be presented as current</u>.
- The current amendment clarifies that :
  - The "held for trading" category in HKAS 39.9 <u>is for measurement purposes</u> and includes financial assets and liabilities that may not be held primarily for trading purposes.
  - In consequence, such financial assets and liabilities that may not be held primarily for trading purposes <u>should be presented as current or non-current on the basis of its settlement date</u>.
  - IASB thus removed the identified inconsistency by amending examples of current liabilities in HKAS 1.71.
  - The IASB also amended HKAS 1.68 in respect of current assets to remove a similar inconsistency.

Affect presentation only

Amendments to HKAS 1

Example

- A financial liability that is not held for trading purposes,
  - such as a derivative that is not a financial guarantee contract or a designated hedging instrument,
    - should be presented as current or non-current on the basis of its settlement date.
- For example, derivatives that
  - have a maturity of more than twelve months and
  - are expected to be held for more than twelve months after the reporting period

  should be presented as non-current assets or liabilities.

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Amendments to HKAS 1

Transition and Effective Date

- An entity shall apply those amendments for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact.

No specific transition stated

Imply Retrospectively

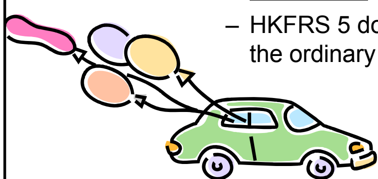
Comparatives should be reclassified

 48

Amendments to HKAS 16

HKAS 16 *Property, Plant and Equipment*

- Gain (on derecognition of PPE) shall not be classified as revenue. (HKAS 16.68)
- Amendment introduces HKAS 16.68A that:
  - However, an entity that, in the course of its ordinary activities, routinely sells items of PPE that it has held for rental to others
    - shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.
  - The proceeds from the sale of such assets shall be recognised as revenue in accordance with HKAS 18 *Revenue*.
  - HKFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.



In some industries, entities are in the business of renting and subsequently selling the same assets, for example, car rental company

Amendments to HKAS 16

Effective Date

- An entity shall apply those amendments for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the related amendments to HKAS 7 *Statement of Cash Flows*.

No specific transition stated

↓

Imply Retrospectively

Comparatives should be reclassified

Consistent with HKAS 16.68A:

- the cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Amendments to HKAS 20

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

- Previously, HKAS 20.37 states that "loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest."
- HKAS 20.37 is now deleted and HKAS 20.10A is added as follows:
  - The benefit of a government loan at a below-market rate of interest is treated as a government grant.
  - The loan shall be recognised and measured in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

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Amendments to HKAS 20

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

- HKAS 20.10A is added as follows:
  - The benefit of the below-market rate of interest shall be measured as the difference between
    - the initial carrying value of the loan determined in accordance with HKAS 39 and
    - the proceeds received.
  - The benefit is accounted for in accordance with HKAS 20.
  - The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Using valuation techniques, e.g. discounting method

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Amendments to HKAS 20

Apply Prospectively

Effective Date

- An entity shall apply those amendments prospectively to government loans received in periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to HKAS 23

HKAS 23 *Borrowing Costs* (as revised in 2007)

- HKAS 23.6 is amended as follows:
  - Borrowing costs may include:
    a. interest expense calculated using the effective interest rate method as described in HKAS 39 *Financial Instruments: Recognition and Measurement*;
    b. [deleted];
    c. [deleted];
    d. finance charges in respect of finance leases recognised in accordance with HKAS 17 *Leases*; and
    e. exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Only align the text with that of HKAS 39

Amendments to HKAS 23

Effective Date

- An entity shall apply that amendment for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendment for an earlier period it shall disclose that fact.

No specific transition stated

Imply Retrospectively

Comparatives should be reclassified

Amendments to HKAS 28

Reversal of goodwill impairment is not prohibited

HKAS 28 *Investments in Associates*

- HKAS 28.33 is amended as follows:
  - Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in HKAS 36 *Impairment of Assets*.
  - Instead, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset, by comparing
    - its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in HKAS 39 indicates that the investment may be impaired.
  - An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate.
  - Accordingly, any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Amendments to HKAS 28

Allow to apply prospectively

Effective Date and transition

- An entity shall apply those amendments for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact and apply for that earlier period the amendments to HKFRS 7.3, HKAS 31.1 and HKAS 32.4 issued in October 2008.
- An entity is permitted to apply the amendments prospectively.

Amendments to HKAS 36

HKAS 36 *Impairment of Assets*

- HKAS 36.134 requires an entity to disclose certain information for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.
- It is amended to additionally disclose:
  - If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:
    - the period over which management has projected cash flows.
    - the growth rate used to extrapolate cash flow projections.
    - the discount rate(s) applied to the cash flow projections. (HKAS 36.134e)

Previously only require such information on value in use calculation

Amendments to HKAS 36

Transitional Provisions and Effective Date

- An entity shall apply that amendment for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendment for an earlier period it shall disclose that fact.

No specific transition stated

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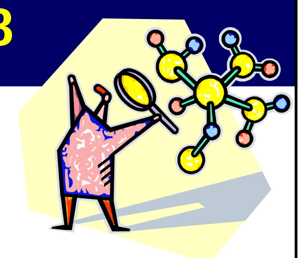
Imply Retrospectively

Comparatives should be reclassified

Amendments to HKAS 38



HKAS 38 *Intangible Assets*

- HKAS 38.69 is amended as:
  - In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised.
    - In the cases of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods.
    - In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services.

Previously, an entity recognises expense when it is incurred

New requirements

Implication:

- An entity might have got the right, for example television advertisement, but not yet broadcasted it.

Amendments to HKAS 38

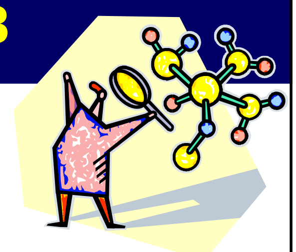
HKAS 38 *Intangible Assets*

- Specific example is given in HKAS 38.69(c)
  - Other examples of expenditure that is recognised as an expense when it is incurred include:
    - (c) expenditure on advertising and promotional activities (<u>including mail order catalogues</u>).

<u>Implication:</u>

- An entity might have to recognise the expense when the catalogues are printed and received (but not yet delivered or mailed to the customers).

Amendments to HKAS 38



HKAS 38 *Intangible Assets*

- HKAS 38.69A is also added to further explain:
  - An entity has <u>a right to access goods</u>
    - <u>When it owns them</u>
    - When the goods have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment.
  - <u>Services are received</u>
    - <u>when</u> they are <u>performed by a supplier in accordance with a contract to deliver them to the entity</u> and
    - <u>Not when</u> the entity <u>uses them to deliver another service</u>, for example, to deliver an advertisement to customers.

<u>Implication:</u>

- An entity might have to recognise the expense when the catalogues are printed and received (but not yet delivered or mailed to the customers).

Amendments to HKAS 38

Example

- If an entity employs an advertising agency to create a television advertisement,
  - the production costs should be expensed by the entity at the latest when the advertising agency completes its assigned task of creating the advertisement.
  - However, the entity would expense the costs of the television air time later, as and when the television advertisement is aired.
- If the advertising and promotional materials are being produced internally,
  - then such production costs should be expensed immediately as incurred, i.e. as production progresses.

Amendments to HKAS 38

Transitional Provisions and Effective Date

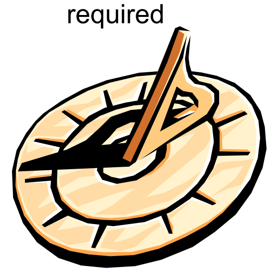
- An entity shall apply those amendments for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact.

No specific transition stated

↓

Imply Retrospectively

Restatement and comparatives reclassified should be required



Amendments to HKAS 39

HKAS 39 *Financial Instruments: Recognition and Measurement*

- Derivatives classified as held for trading is not allowed for reclassification into or out of the fair value through profit or loss category under HKAS 39.50
- HKAS 39.50A is added to clarify that the following changes in circumstances are not reclassifications for the purposes of HKAS 39.50:
  a. a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
  b. a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge;
  c. financial assets are reclassified when an insurance company changes its accounting policies in accordance with HKFRS 4.45
     - i.e. when an insurer changes accounting policies when it first applies HKFRS 4

Amendments to HKAS 39

HKAS 39 *Financial Instruments: Recognition and Measurement*

- Previously, HKAS 39.73 referred to the need for hedging instruments to involve a party external to the reporting entity.
  - In doing so, it used a segment as an example of a reporting entity.
- However, HKFRS 8 *Operating Segments* requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-HKFRS basis.
- Therefore, the two HKFRSs appeared to conflict.
- In Improvement Project issued in May 2008, the IASB removed from HKAS 39.73 references to the designation of hedging instruments at the segment level.
  - i.e. all words referring to “segment” are deleted.

Amendments to HKAS 39

HKAS 39 *Financial Instruments: Recognition and Measurement*

- If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows.
- The entity recalculates
  - the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or,
  - <u>when applicable, the revised effective interest rate calculated in accordance with HKAS 39.92</u>.
- The adjustment is recognised in profit or loss as income or expense.

HKAS 39.92 refers to revised effective interest rate calculated when fair value hedge accounting ceases.

Amendments to HKAS 39

<u>Effective Date and Transition</u>

- An entity shall apply those amendments for <u>annual periods beginning on or after 1 January 2009</u>.
- An entity shall apply the amendments in HKAS 39.9 and 50A as of the date and in the manner it applied the 2005 amendments described in HKAS 39.105A.
- Earlier application of all the amendments is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact.

Follow 39.105A

Amendments to HKAS 40

HKAS 40 *Investment Property*

- The following property is added as an example of investment property:
  - Property that is being constructed or developed for future use as investment property (HKAS 40.8)
- Previously, such property is accounted for in accordance with HKAS 16.
- To align with this scope amendment, HKAS 40.48 and 53 are amended to extend the fair value model to such property.

Amendments to HKAS 40

HKAS 40 *Investment Property*

- HKAS 40.53 is added with:
  - If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete,
    - it shall measure that investment property under construction at cost until either
      - its fair value becomes reliably determinable or
      - its construction is completed (whichever is earlier).
  - If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the cost model in HKAS 16.

Amendments to HKAS 40

Apply prospectively

Effective Date

- An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009.
- An entity is permitted to apply the amendments to investment property under construction from any date before 1 January 2009 provided that the fair values of investment properties under construction were determined at those dates.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the amendments to HKAS 16.5 and 81E (i.e. consequential amendments as a result of the amendments in HKAS 40).

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Amendments to HKAS 41

HKAS 41 *Agriculture*

- HKAS 41.5 is amended (additional biological transformation):
  - Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce, or into additional biological assets.
- Active market is referred to determine fair value of agriculture
  - Amendment clarifies that an active market is the one in its present location and condition (i.e. other locations should not be considered).
- In case present value of expected net cash flows is calculated
  - Amendments clarifies the focus of market inputs by using
    - "a current market-determined rate"
    - "the net cash flows that market participants would expect the asset to generate in its most relevant market"

    in determining the present value of expected net cash flows

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Amendments to HKAS 41

Apply Prospectively

Effective Date

- An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period it shall disclose that fact.

Today's Agenda

2008 Annual Improvement Project
Part II

Part II: Transition & Effective Date

- The amendments in Part II shall be applied for annual periods beginning on or after 1 January 2009.
- Earlier application is permitted.

Part II: Summary

HKFRS 7	Financial Instruments: Disclosures
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Reporting Period
HKAS 18	Revenue
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 29	Financial Reporting in Hyperinflationary Economies
HKAS 34	Interim Financial Reporting
HKAS 40	Investment Property
HKAS 41	Agriculture

Amendments to HKAS 20

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

– The amendments aim at aligning the terminology used in HKAS 20 with other HKFRSs, for example:

a. 'taxable income' was amended to 'taxable profit or tax loss',

b. 'recognised as income/expense' was amended to 'recognised in profit or loss',

c. 'credited directly to shareholders' interests/equity' was amended to 'recognised outside profit or loss', and

d. 'revision to an accounting estimate' was amended to 'change in accounting estimate'

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7)

Amendments to HKFRS 7 in 03/2009

- The aim of the amendments was to enhance disclosures about
  - fair value and
  - liquidity risk
- SFAS 157 of US FASB requires disclosures that are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value.
- IASB concluded
  - That such a hierarchy would improve comparability between entities about the effects of fair value measurements as well as increase the convergence of IFRSs and US GAAP.
  - To require disclosures for financial instruments on the basis of a fair value hierarchy.

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1. Fair Value Disclosure

- If there has been a change in valuation technique,
  - the entity shall disclose that change and the reasons for making it.
- A fair value hierarchy for disclosure is also required:
  - classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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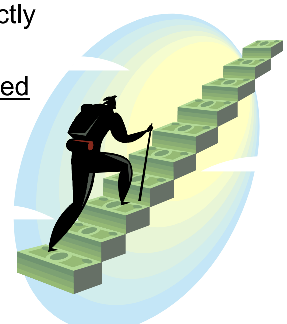
1. Fair Value Disclosure

- The fair value hierarchy shall have the following levels:
  a. quoted prices (unadjusted) in active markets for identical assets or liabilities (**Level 1**);
  b. inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (**Level 2**); and
  c. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (**Level 3**).



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1. Fair Value Disclosure

- The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.
  - For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.
  - If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs,
    - that measurement is a Level 3 measurement.
  - Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

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1. Fair Value Disclosure

- For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:
  1. the level in the fair value hierarchy
  2. any significant transfers between Level 1 and Level 2 of the fair value hierarchy (with other details)
  3. Further details for Level 3.
- An entity shall present the quantitative disclosures as required above in tabular format unless another format is more appropriate.

1. Fair Value Disclosure

- Further details for Level 3:
  1. total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented)
  2. total gains or losses recognised in other comprehensive income
  3. purchases, sales, issues and settlements (each type of movement disclosed separately)
  4. transfers into or out of Level 3 (e.g. transfers attributable to changes in the observability of market data) and the reasons for those transfers. (If significant, separate transfers into and out of Level 3)
  5. the fact and the effect of changes (for the inputs to assumptions if their changes affect fair value significantly)

1. Fair Value Disclosure

Case

HSBC

At 31 December 2008 (US$m)	Valuation Techniques: Quoted market price	Valuation Techniques: Using observable inputs	Valuation Techniques: With significant unobservable inputs	Total
Assets				
Trading assets	234,399	185,369	7,561	427,329
Financial assets designated at FV	14,590	13,483	460	28,533
Derivatives	8,495	476,498	9,883	494,876
Financial instruments: AFS	103,949	173,157	9,116	286,222
Liabilities				
Trading liabilities	105,584	135,559	6,509	247,652
Financial liabilities designated at FV	23,311	51,276	-	74,587
Derivatives	9,896	473,359	3,805	487,060

2. Liquidity Risk Disclosure

- An entity shall disclose:
  a. a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities;
  b. a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:
     i. an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.
     ii. all loan commitments.
  c. a description of how it manages the liquidity risk inherent in (a) and (b).

HKFRS 7 Amendments

Effective Date

- An entity shall apply those amendments for annual periods beginning on or after 1 January 2009.
- In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments.
- Earlier application is permitted.
  - If an entity applies the amendments for an earlier period, it shall disclose that fact.

Today's Agenda

Effective after 2009
(up to 2013 ……. too remote for 2013?)

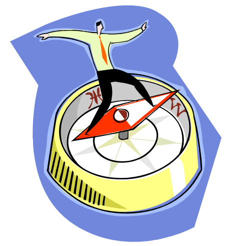
Consolidated Financial Statements

(HKAS 27 Revised in 2008)

HKAS 27 (Revised in 2008)

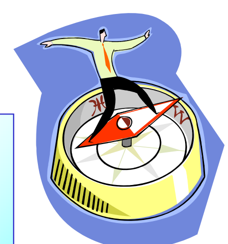
- Scope and definitions
- Presentation of consolidated financial statements
- Scope of consolidated financial statements
- Consolidation procedures ← Significant changes
- Loss of control ← New section
- Accounting in separate financial statements

Consolidation Procedures



- Most critical ……
  - <u>Changes in a parent's ownership interest in a subsidiary</u> that <u>do not result in a loss of control</u>
    - are accounted for **<u>as equity transactions</u>** (i.e. transactions with owners in their capacity as owners)
    - i.e. no gain or loss on disposal of interests in subsidiary can be recognised in profit or loss if the subsidiary is still a subsidiary.

Consolidation Procedures



- In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.
- Any difference between
  - the amount by which the non-controlling interests are adjusted and
  - the fair value of the consideration paid or received

  shall be <u>recognised directly in equity</u> and <u>attributed to the owners of the parent</u>.

Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	X	Consol pre-change
Property, plant & equipment	3,500	2,000	5,500
Interest in subsidiary	80	-	-
Net current liabilities	(1,000)	(2,600)	(3,600)
Net assets	2,580	(600)	1,900
Share capital	(200)	(100)	(200)
Reserves	(2,380)	700	(1,820)
	(2,580)	600	(2,020)
Non-controlling interests			120
(Assume fair value = carrying amount)			(1,900)

Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	X	Consol pre-change

- In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary.
- Any difference between
  - the amount by which the non-controlling interests are adjusted and
  - the fair value of the consideration paid or received

  shall be recognised directly in equity and attributed to the owners of the parent.

NCI to be adjusted	(120)
Consideration	50
Difference to equity	170

Non-controlling interests	120
(Assume fair value = carrying amount)	(1,900)

Consolidation Procedures

Example

Entity A holds 80% of Entity X since its incorporation and their financial statements are set out below:

Disposed of 20% interest at $50

	A	X	Consol pre-change	Dr/(Cr)	Consol. after change
Property, plant & equipment	3,500	2,000	5,500		5,500
Interest in subsidiary	80	-	-		-
Net current liabilities	(1,000)	(2,600)	(3,600)	50	(3,550)
Net assets	2,580	(600)	1,900		1,950
Share capital	(200)	(100)	(200)		(200)
Reserves	(2,380)	700	(1,820)	(170)	(1,990)
	(2,580)	600	(2,020)		(2,190)
Non-controlling interests			120	120	240
(Assume fair value = carrying amount)			(1,900)		(1,950)

Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
  - If a parent loses control of a subsidiary, it:
    - a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
    - b) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);
    - c) recognises:
      - i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and
      - ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;

Loss of Control

- Specific requirements introduced when a parent loses control of a subsidiary:
  - If a parent loses control of a subsidiary, it:
    - d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
    - e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other HKFRSs, the amounts identified in HKAS 27.35 (discussed in next slide); and
    - f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.

Loss of Control

- If a parent loses control of a subsidiary,
  - the parent shall account for all amounts recognised in other comprehensive income in relation to that subsidiary
    - on the same basis as would be required if the parent had directly disposed of the related assets or liabilities.
- Therefore, if a gain or loss previously recognised in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities,
  - the parent reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses control of the subsidiary.

Loss of Control

Example

What if ……

similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100
Representing: - Revalued amount of available-for-sale - Revalued amount of PPE	 100 	 100
Revaluation reserves	*20*	*20*

Anything recognised in profit or loss?

Loss of Control

Example

A parent loses control of a subsidiary and the subsidiary has the following assets:

– The subsidiary has available-for-sale financial assets

The parent shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets.

– The subsidiary has property, plant and equipment with revaluation surplus previously recognised in other comprehensive income

The parent transfers the revaluation surplus directly to retained earnings when it loses control of the subsidiary

- since the revaluation surplus would be transferred directly to retained earnings on the disposal of the asset

Loss of Control

Example

What if ……

similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100
Representing: - Revalued amount of available-for-sale - Revalued amount of PPE	 100 	 100
Revaluation reserves	*20*	*20*

Revaluation reserves relating to available-for-sale <u>reclassified to profit or loss</u>

Revaluation reserves relating to PPE <u>transferred directly to retained earnings</u>

Business Combinations

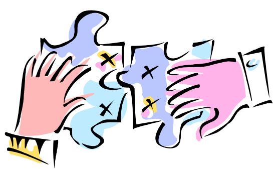
(HKFRS 3 Revised in 2008)

Introduction

Scope

Method of accounting

Application of the method



- The objective of HKFRS 3 (revised 2008) is
  - to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
- To accomplish that, HKFRS 3 establishes principles and requirements for how the acquirer:
  a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
  b) recognises and measures
     - the goodwill acquired in the business combination or
     - a gain from a bargain purchase; and

What is it?

  c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

The Acquisition Method

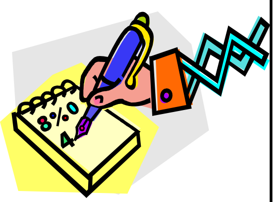
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Application of the method

- As of the acquisition date, the acquirer shall recognise, separately from goodwill,
  - the identifiable assets acquired,
  - the liabilities assumed and
  - any non-controlling interest in the acquiree.
- Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in HKFRS 3.11 and 3.12. (HKFRS 3.10)

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree



- To qualify for recognition as part of applying the acquisition method,
  - the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* at the acquisition date.
- In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be
  - part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction
  - rather than the result of separate transactions.

The Acquisition Method

Example

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- An operating lease in which the acquiree is the lessee is normally not recognised as assets or liabilities except for:
  - if the terms of an operating lease are favourable relative to market terms
    - ➢ the acquirer shall recognise an intangible asset
  - if the terms are unfavourable relative to market terms
    - ➢ the acquirer shall recognise a liability (HKFRS 3.B29)
- If the terms of an operating lease in which the acquiree is the lessor are either favourable or unfavourable when compared with market terms
  - The acquirer does not recognise a separate asset or liability(HKFRS 3.B42)

The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

- The acquirer shall measure the identifiable assets acquired and the liabilities assumed
  - at their acquisition-date fair values. (HKFRS 3.18)

Affect acquisition in stages

- For each business combination, the acquirer shall measure any non-controlling interest in the acquiree either
  - at fair value or
  - at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. (HKFRS 3.19)

New alternative ("full goodwill method")

Existing practice

The Acquisition Method

Example

Existing practice	HK$	New alternative ("Full goodwill method")	HK$
Fair value of identifiable net assets of Entity A	100		
Purchase 75% interest in Entity A (consideration is $120)	120	Fair value of Entity A as a whole ($120 ÷ 75%)	160
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	25	NCI ($160 × 25%) (at fair value)	40
Goodwill ($120 - $75)	45	Goodwill ($160 – $100)	60

The Acquisition Method

Critical Amendment

- Recognising and measuring goodwill or a gain from a bargain purchase

Application of the method

- The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below:
  a) the aggregate of:
     i) the consideration transferred measured in accordance with HKFRS 3, which generally requires acquisition-date fair value;
     ii) the amount of any non-controlling interest in the acquiree measured in accordance with HKFRS 3; and
     iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
  b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with HKFRS 3. (HKFRS 3. 32)

If fair value is adopted, it will affect the amount of goodwill

Practices changed

The Acquisition Method

Example

Existing practice

	HK$	HK$	
Fair value of identifiable net assets of Entity A	100	100	b
Purchase 75% interest in Entity A (consideration is $120)	120	120	a(i)
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)		25 145	a(ii)
Goodwill ($120 - $75)	45	45	

$(120 + 25) – $100 = $45

The Acquisition Method

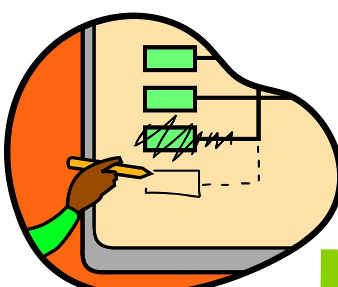
Example

Existing practice	HK$	New alternative ("Full goodwill method")	HK$
Fair value of identifiable net assets of Entity A	<u>100</u> ◄ b		
Purchase 75% interest in Entity A (consideration is $120)	120 ◄ a(i)	Fair value of Entity A 75%)	160
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	25 ◄ a(ii)	160 × 25%) (at fair value)	40 ◄ a(ii)
Goodwill ($120 - $75)	45	Goodwill ($160–$100)	60

$(120 + 25) – $100 = $45

$(120 + 40) – $100 = $60

Improvements to HKFRSs 2009



Introduction

- Annual Improvement Project
  - A vehicle for making non-urgent but necessary amendments to IFRS (and consequentially HKFRSs)
  - Introduced by the IASB in 2007 and issued each year
  - Improvement to HKFRSs 2009 is the one finalised in 2009
- The project has amended
  - 10 HKFRSs and 2 HK(IFRIC) Interpretations

Summary

Amendments to

HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKFRS 8	Operating Segments
HKAS 1	Presentation of Financial Statements
HKAS 7	Statement of Cash Flows
HKAS 17	Leases
HKAS 18	Revenue
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

Amendments to HKAS 1

HKAS 1 *Presentation of Financial Statements*

- An entity shall classify a liability as **current** when:
  a) it expects to settle the liability in its normal operating cycle;
  b) it hold the liability primarily for the purpose of trading;
  c) The liability is due to be settled within 12 months after the reporting period; or
  d) It does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period (see HKAS 1.73).

> Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
>
> *New requirements*

- All other liabilities shall be classified as **non-current**.

Amendments to HKAS 1

HKAS 1 *Presentation of Financial Statements*

- The IASB concluded that classifying the liability
  – on the basis of the requirements to transfer cash or other assets
  – rather than on settlement better reflects the liquidity and solvency position of an entity, and

  therefore it decided to amend IAS 1 (HKAS 1) accordingly.

> Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.
>
> *New requirements*

Amendments to HKAS 1

Transition and Effective Date

- HKAS 1.69 was amended by Improvements to HKFRSs issued in May 2009.
- An entity shall apply that amendment for annual periods beginning on or after 1 January 2010.
- Earlier application is permitted.
- If an entity applies the amendment for an earlier period it shall disclose that fact

No specific transition stated

Imply Retrospectively

Comparatives should be reclassified

Amendments to HKAS 7

HKAS 7 *Statements of Cash Flows*

- HKAS 7.16 is amended by adding the following underlined sentence:
  - The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.
  - Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities ……

- Examples of such expenditures are:
  - those for exploration and evaluation activities, which IFRS 6 permits to be recognised as either an asset or an expense depending on the entity's previous accounting policies for those expenditures.
  - expenditures on advertising and promotional activities, staff training, and research and development could also raise the same issue.

Amendments to HKAS 7

Effective Date

- HKAS 7.16 was amended by Improvements to HKFRSs issued in May 2009.
- An entity shall apply that amendment for annual periods beginning on or after 1 January 2010.
- Earlier application is permitted.
- If an entity applies the amendment for an earlier period it shall disclose that fact.

No specific transition stated

Imply Retrospectively

Comparatives should be reclassified

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Amendments to HKAS 17

Do you remember these 2 paragraphs in HKAS 17?

HKAS 17 *Leases*

- Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments ……
- The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease ……. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with para. 14. The buildings element is classified as a finance or operating lease in accordance with para. 7–13.

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Amendments to HKAS 17

Do you remember these 2 paragraphs in HKAS 17?

HKAS 17 *Leases*

- Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteri... f land is ...

- As part of its annual improvements project in 2007, the IASB reconsidered the decisions it made in 2003, specifically the perceived inconsistency between
  - the general lease classification guidance in HKAS 17.7–13 and
  - the specific lease classification guidance in HKAS 17.14 and 15 related to long-term leases of land and buildings.
- The IASB concluded that the guidance in HKAS 17.14 and 15 might lead to a conclusion on the classification of land leases that does not reflect the substance of the transaction.

Amendments to HKAS 17

HKAS 17 *Leases*

- HKAS 17.14 and 15 are deleted and HKAS 17.15A is added as follows:
  - When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with HKAS 17.7–13.
  - In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

Amendments to HKAS 17

Example

- IASB describes in HKAS 17.BC8B and BC8C that:
  - For example, consider a 999-year lease of land and buildings.
    - In this situation, significant risks and rewards associated with the land during the lease term would have been transferred to the lessee despite there being no transfer of title.
    - The Board noted that the lessee in leases of this type will typically be in a position economically similar to an entity that purchased the land and buildings.
    - The present value of the residual value of the property in a lease with a term of several decades would be negligible.
    - The Board concluded that the accounting for the land element as a finance lease in such circumstances would be consistent with the economic position of the lessee.

Unclear how long the lease term must be for the IASB to conclude that a lessee and a purchaser are in the same economic position

Amendments to HKAS 17

Effective Date

Applied Retrospectively

- HKAS 17.14 and 15 were deleted, and HKAS 17.15A and 68A were added as part of Improvements to HKFRSs issued in May 2009.
- An entity shall apply those amendments for annual periods beginning on or after 1 January 2010.
- Earlier application is permitted.
- If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendments to HKAS 18

HKAS 18 *Revenue*

- Appendix to HKAS 18 is added with Example 21: Determining whether an entity is acting as a principal or as an agent (2009 amendment).
- HKAS 18.8 states that:
  - "in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity.
  - The amounts collected on behalf of the principal are not revenue.
  - Instead, revenue is the amount of commission."
- Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

Amendments to HKAS 18

HKAS 18 *Revenue*

- An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.
- Features that indicate that an entity is acting as a principal include:
  a. the entity has the primary responsibility
     - for providing the goods or services to the customer or
     - for fulfilling the order,

     for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
  b. the entity has inventory risk before or after the customer order, during shipping or on return;
  c. the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
  d. the entity bears the customer's credit risk for the amount receivable from the customer.

Amendments to HKAS 18

HKAS 18 *Revenue*

- An entity is acting as an agent when
  - it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.
- One feature indicating that an entity is acting as an agent is that
  - the amount the entity earns is predetermined, being either
    - a fixed fee per transaction or
    - a stated percentage of the amount billed to the customer.

As it is an additional example, no transition and effective date are stated.

HKFRS 9 Financial Instruments

Background

- In response to the input received on its work responding to the financial crisis, and following the conclusions of the G20 leaders and the recommendations of international bodies,
  – the IASB announced an accelerated timetable for replacing IAS 39 in April 2009, and
  – finally, IFRS 9 *Financial Instruments* in Nov. 2009
- HKFRS 9 was issued to maintain international convergence with the issuance of IFRS 9.

Background

- It is intended that HKFRS 9 will ultimately replace HKAS 39 in its entirety.
  – However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the project to replace HKAS 39 is divided into three main phases.
- As each phase is completed, as well as its separate project on the derecognition of financial instruments,
  – the relevant portions of HKAS 39 will be deleted and
  – chapters in HKFRS 9 will be created to replace the requirements in HKAS 39.
- The replacement of HKAS 39 in its entirety is aimed to be completed by the end of 2010.

Background

- HKFRS 9 issued so far includes only the chapters relating to the classification and measurement of financial assets.
  - HKFRS 9 addressed those matters first because they form the foundation of a standard on reporting financial instruments.
  - Moreover, many of the concerns expressed during the financial crisis arose from the classification and measurement requirements for financial assets in HKAS 39.

Financial Assets Only

Structure of HKFRS 9

Chapters

1	Objective
2	Scope
3	Recognition and Derecognition
4	Classification
5	Measurement
6	Hedge Accounting *(not used yet)*
7	Disclosures *(not used yet)*
8	Effective Date and Transition

Chapter 1 and 2

Objective

- The objective of HKFRS 9 is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

Scope

- An entity shall apply HKFRS 9 to all assets within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*.

Chapter 3

Recognition and Derecognition

- An entity shall recognise a financial asset in its statement of financial position when, and only when,
  - the entity becomes party to the contractual provisions of the instrument.

Same as before

- When an entity first recognises a financial asset, it shall
  - **classify** it in accordance with paragraphs 4.1-4.5 and
  - **measure** it in accordance with paragraph 5.1.1.

Amended (Ch. 4 of HKFRS 9)

Amended (Ch. 5 of HKFRS 9)

- A regular way purchase or sale of a financial asset
  - shall be recognised and derecognised in accordance with paragraphs 38 and AG53–AG56 of HKAS 39.

Same as before

Chapter 4 Classification

- Unless para. 4.5 of HKFRS 9 (so-called "fair value option") applies, an entity shall classify financial assets as subsequently measured at either
  - amortised cost or
  - fair value

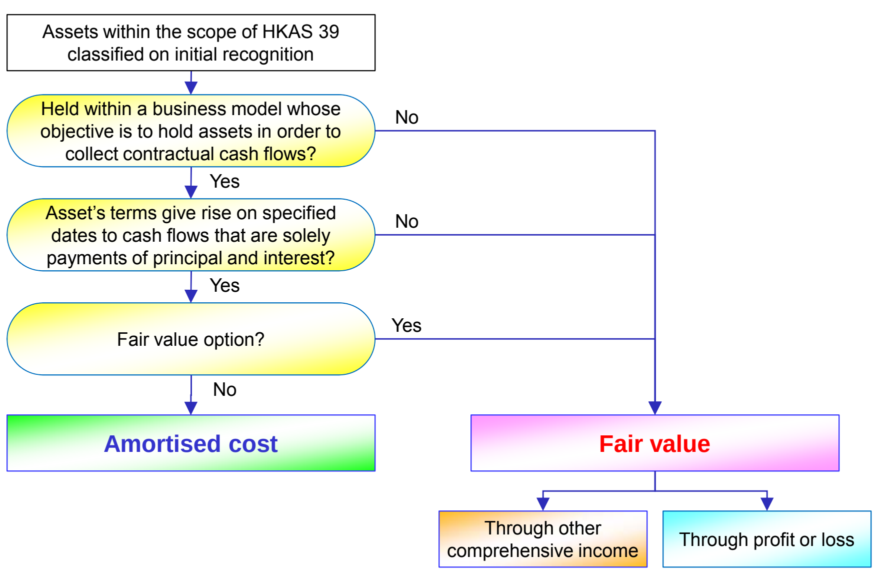
  on the basis of both:

  a) the entity's business model for managing the financial assets; and

  b) the contractual cash flow characteristics of the financial asset. (para. 4.1)

Amortised cost | Fair value

Chapter 4 Classification



Chapter 4 Classification

Assets within the scope of HKAS 39 classified on initial recognition

Held within a business model whose objective is to hold assets in order to collect contractual cash flows?

Yes

Asset's terms give rise on specified dates to cash flows that are solely payments of principal and interest?

Yes

Amortised cost

- A financial asset shall be measured at **amortised cost** if both of the following conditions are met:
  a. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
  b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. (para. 4.2)

Chapter 4 Classification

Assets within the scope of HKAS 39 classified on initial recognition

Held within a business model whose objective is to hold assets in order to collect contractual cash flows?

No

Yes

Asset's terms give rise on specified dates to cash flows that are solely payments of principal and interest?

No

- A financial asset shall be measured at **fair value**
  – unless it is measured at amortised cost in accordance with para. 4.2. (para. 4.4)

Fair value

Chapter 4 Classification

Assets within the scope of HKAS 39 classified on initial recognition

↓

Held within a business model whose objective is to hold assets in order to collect contractual cash flows?

↓ Yes

Asset's terms give rise on specified dates to cash flows that are solely payments of principal and interest?

↓ Yes

Fair value option?

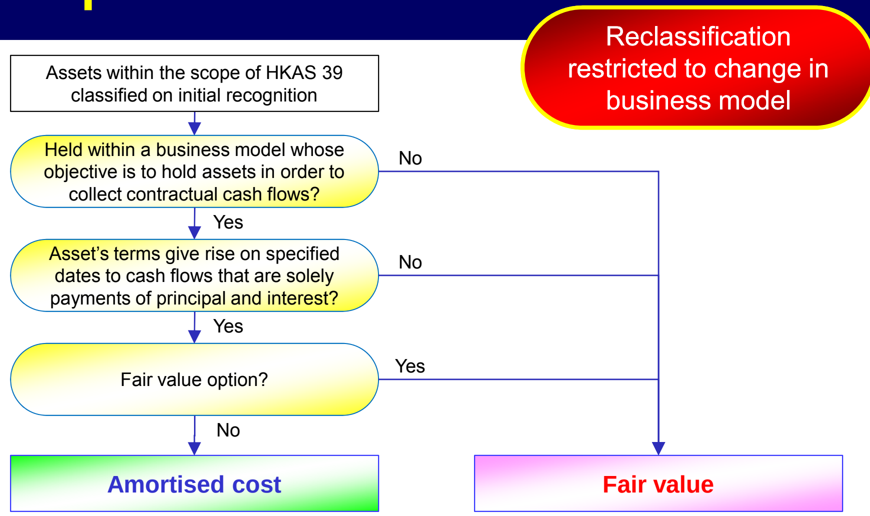
- No → **Amortised cost**
- Yes → **Fair value** → Through profit or loss

- Notwithstanding para. 4.1-4.4, an entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss
  – if doing so eliminates or significantly reduces an "accounting mismatch". (para. 4.5)

Chapter 4 Classification

- If a hybrid contract contains a host that is within the scope of this HKFRS,
  – an entity shall apply the requirements in para. 4.1-4.5 (as discussed above) to the entire hybrid contract.
- If a hybrid contract contains a host that is not within the scope of this HKFRS,
  – an entity shall apply the requirements in para. 11–13 and AG27–AG33B of HKAS 39 (as before) to determine whether it must separate the embedded derivative from the host.
- If the embedded derivative must be separated from the host, the entity shall:
  a. classify the derivative in accordance with either
     - para.4.1-4.4 for derivative assets or
     - para. 9 of HKAS 39 for all other derivatives; and
  b. account for the host in accordance with other HKFRSs.

Chapter 4 Classification



- When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with para. 4.1–4.4.

Chapter 5 Measurement

Initial measurement (same as HKAS 39)

- At initial recognition, an entity shall measure a financial asset at
  – its fair value plus,
  – in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Initial Measurement
Fair Value
+
Transaction Cost

Chapter 5 Measurement

Subsequent Measurement

- After initial recognition, an entity shall measure financial assets in accordance with para. 4.1 -4.5 (as discussed above) at
  - fair value or
  - amortised cost
- An entity shall apply the impairment requirements of HKAS 39 to all financial assets measured at amortised cost.
  - ➢ No impairment requirements on financial assets measured at fair value
- An entity shall apply the hedge accounting requirements of HKAS 39 to financial assets that are designated as hedged items.

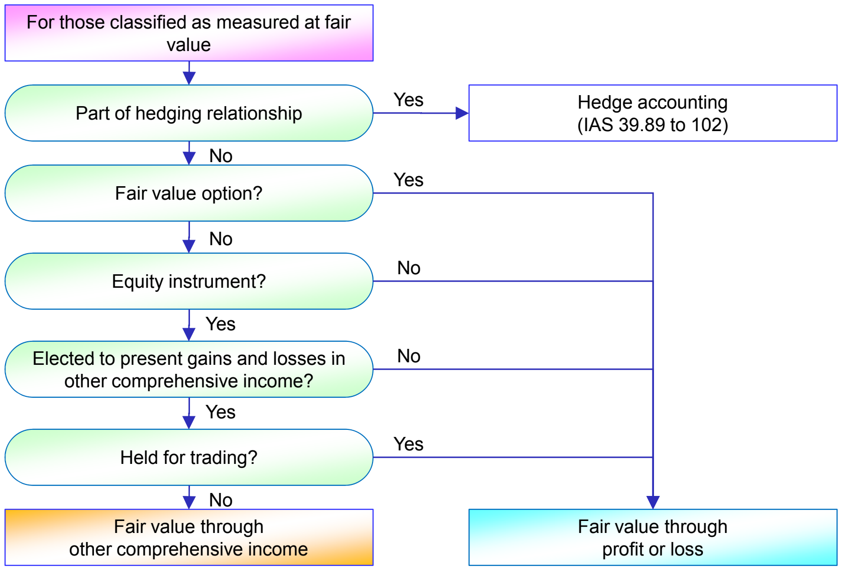
Amortised cost | **Fair value**

Chapter 5 Measurement

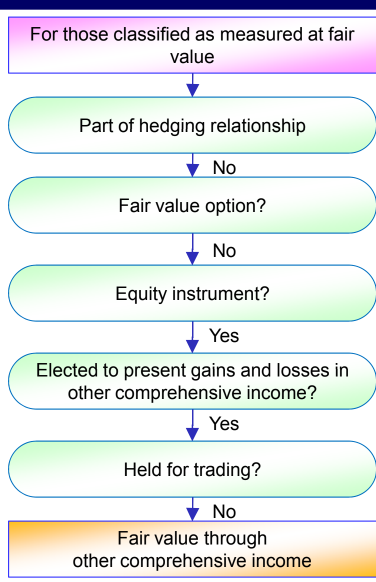
Reclassification

- If an entity reclassifies financial assets in accordance with para. 4.9 (as discussed),
  - it shall apply the reclassification *prospectively from the reclassification date*
  - the entity shall not restate any previously recognised gains, losses or interest.
- If, in accordance with para. 4.9, an entity reclassifies a financial asset so that it is measured at fair value,
  - its fair value is determined at the reclassification date
  - any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss
- If, in accordance with para. 4.9, an entity reclassifies a financial asset so that it is measured at amortised cost,
  - its fair value at the reclassification date becomes its new carrying amount.

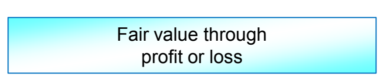
Chapter 5.4 Gains and Losses



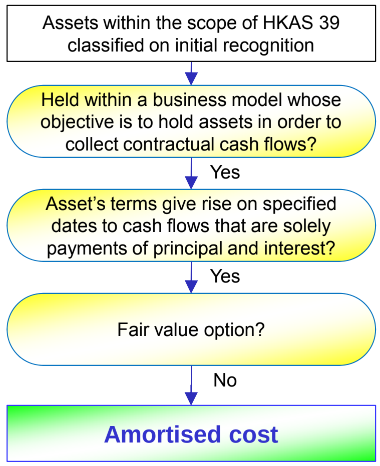
Chapter 5.4 Gains and Losses



- A gain or loss on a financial asset that is measured at fair value and is not part of a hedging relationship
  - shall be recognised in **profit or loss**
  - unless :
    - the financial asset is an investment in an equity instrument and
    - the entity has elected to present gains and losses on that investment in other comprehensive income (para. 5.4.1)



Chapter 5.4 Gains and Losses



- A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship
  – shall be recognised in profit or loss
    - when the financial asset is derecognised, impaired or reclassified, and through the amortisation process. (para. 5.4.2)

Chapter 5.4 Gains and Losses

- A gain or loss on financial assets that are
  a. hedged items
     - shall be recognised in accordance with para. 89-102 of HKAS 39

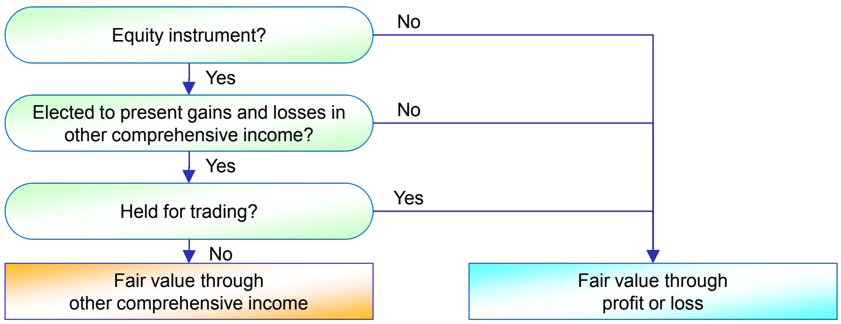
     Same as before

  b. accounted for using settlement date accounting
     - shall be recognised in accordance with para. 57 of HKAS 39

     Same as before

Chapter 5.4 Gains and Losses

- At initial recognition, an entity may make an irrevocable election to
  - present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of HKFRS 9 that are not held for trading. (para. 5.4.4)
- If an entity makes such election, it shall recognise in profit or loss dividends from that investment when the entity's right to receive payment of the dividend is established in accordance with HKAS 18 *Revenue*. (para. 5.4.5)



Chapter 6 and 7

- Chapter 6 and 7 not yet used
  - As hedge accounting and disclosure not yet introduced

Chapter 8

Effective date

- An entity shall apply HKFRS 9 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- If an entity applies HKFRS 9 in its financial statements for a period beginning before 1 January 2013,
  - it shall disclose that fact and at the same time apply the amendments in Appendix C (i.e. Amendments to other HKFRSs).

Next Step ……

- HKFRS 9 is the first part of Phase 1 of the project to replace HKAS 39. The main phases are:
  - ***Phase 1: Classification and measurement***. (Requirements for financial liabilities will be included in HKFRS 9 in due course.
  - ***Phase 2: Impairment methodology***. The request for Information on the feasibility of an expected loss model for the impairment of financial assets was published in Jun. 2009. This formed the basis of an exposure draft, Financial Instruments: Amortised Cost and Impairment, published in Nov. 2009 with a comment deadline of 30 Jun. 2010.
  - ***Phase 3: Hedge accounting***. The project for considering how to improve and simplify the hedge accounting requirements of HKAS 39 has started and the proposals are expected to be published shortly.

HKFRS Update for 2009/10

4 March 2010

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HKFRS Update for 2009/10

4 March 2010

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