

IFRS and HKFRS Update & Impact

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Today's Agenda

IFRSs and HKFRSs effected
for 2007-08

Overview of the Latest Development
(effected after 2007-08)

Impact of the Latest Development



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Today's Agenda

IFRSs and HKFRSs effected
for 2007-08



Financial Instruments: Disclosures
(IFRS or HKFRS 7)

Introduction

- The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- 1) the significance of financial instruments for the entity's
 - financial position and
 - financial performance; and
- 2) the nature and extent of risks arising from financial instruments to which the entity is exposed
 - during the period and
 - at the reporting date, andhow the entity manages those risks.

Significance

- Balance sheet
- Income statement
- Other disclosures

Nature and Extent

- Qualitative disclosures
- Quantitative disclosures

1. Significance of Financial Instruments

Case



	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets included in other assets (note 18)	-	80,000	-	80,000
Interests in associates (notes 22)	-	10,000	-	10,000
Interests in jointly-controlled entities (note 23)	-	19,128	-	19,128
Available-for-sale investments	-	-	462,178	462,178
Financial assets included in prepayments, deposits and other receivables	-	321,664	-	321,664
Trade receivables	-	293,870	-	293,870
Bills receivables	-	52,346	-	52,346
Equity investments at fair value through profit or loss	102,439	-	-	102,439
Derivative financial instruments	4,440	-	-	4,440
Pledged deposits	-	52,088	-	52,088
Cash and cash equivalents	-	2,184,510	-	2,184,510
	106,879	3,013,606	462,178	3,582,663

Significance

2. Nature and Extent of Risks

- An entity shall disclose information that enables users of its financial statements to evaluate
 - the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date.
- The disclosures required focus on the risks that arise from financial instruments and how they have been managed.
- These risks typically include, but are not limited to
 - credit risk,
 - liquidity risk and
 - market risk.



Nature and Extent

Qualitative Disclosures

Quantitative Disclosures

2. Nature and Extent of Risks

- For each type of risk arising from financial instruments, an entity shall disclose:
 - a. Summary quantitative data about its exposure to that risk at the reporting date.
 - The level of detail of such disclosure is based on the information provided internally to key management personnel of the entity
 - for example the entity's board of directors or chief executive officer.
 - b. the disclosures required in quantitative disclosures, to the extent not provided in (a), unless the risk is not material.
 - c. concentrations of risk if not apparent from (a) and (b)



Quantitative Disclosures

2. Nature and Extent of Risks

Case

Jardine Matheson Limited (2007):

- The Group is exposed to equity securities price risk because of listed and unlisted equity investments which are available for sale and held by the Group at fair value.
- Gains and losses arising from changes in the fair value of available-for-sale investments are dealt with in reserves.
- The performance of the Group's listed and unlisted available-for-sale investments are monitored regularly, together with an assessment of their relevance to the Group's long term strategic plans.
- Details of the Group's available-for-sale investments are contained in note 16.



Exposures to price risk

How to manage price risk

Summary quantitative data

Quantitative Disclosures

2. Nature and Extent of Risks

Market risk

- IFRS 7 requires the disclosures of sensitivity analysis.
- The disclosures of sensitivity analysis can be achieved by 2 approaches:

1. Simple sensitivity analysis:

- sensitivity analysis for each type of market risk

2. Interdependency sensitivity analysis:

- Sensitivity analysis that reflects interdependencies between risks variables



Quantitative Disclosures

2. Nature and Extent of Risks

Market risk – Simple sensitivity analysis

- An entity shall disclose:
 - a) a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing:
 - how **profit or loss** and **equity** would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
 - b) the methods and assumptions used in preparing the sensitivity analysis; and
 - c) changes from the previous period in the methods and assumptions used, and the reasons for such changes.

Assuming that a **reasonably possible change** in the relevant risk variable had occurred at the balance sheet date and had been applied to the risk exposures in existence at that date.



Quantitative Disclosures

2. Nature and Extent of Risks

Case

How can it be reasonably possible change?

Observed assessments by certain companies:

<u>Entity name</u>	<u>Currency</u>	<u>Interest rate</u>	<u>Other price</u>
BASF	10% (drop only)	1%	10%
BP plc	VaR	VaR	10%
CLP Holdings Ltd.	1%	0.5%	15% (2006: 5%)
DBS Group	10%	0.25%	10%
Deutsche Telecom	10%	1%	N/M
France Telecom	10%	1%	N/M
Jardine Matheson Ltd.	10%	1%	25% (AFS)
Recruit	7 – 12%	N/M	N/M
Zijin Mining	10%	1%	N/M

Quantitative Disclosures

2. Nature and Extent of Risks

Market risk – Interdependency Sensitivity Analysis

- An entity can alternatively prepare and disclose a sensitivity analysis, such as Value-at-Risk (VaR), that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) so long as it uses such sensitivity analysis to manage financial risks.
- The entity shall also disclose:
 - a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
 - b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Quantitative Disclosures

2. Nature and Extent of Risks

Case



Royal Dutch Shell plc for 2007

- Shell uses risk management systems for recording and valuing instruments.
- There is regular review of mandated trading limits by senior management, daily monitoring of market risk exposure using value-at-risk (VAR) techniques (see below), daily monitoring of trading positions against limits and marking-to-market of trading exposures with a department independent of traders reviewing the market values applied to trading exposures.
- Shell's exposure to substantial trading losses is therefore considered limited.
- Shell utilises VAR techniques based on variance/covariance or Monte Carlo simulation models and make a statistical assessment of the market risk arising from possible future changes in market values over a 24-hour period and within a 95% confidence level.
- The calculation of the range of potential changes in fair value takes into account positions, the history of price movements and the correlation of these price movements.
- Each of the models is regularly back tested against actual fair value movements to ensure model integrity is maintained.

2. Nature and Extent of Risks

Case



Royal Dutch Shell plc for 2007

VALUE-AT-RISK (pre-tax) \$ million	2007			2006			Year end	Year end
	High	Low	Average	High	Low	Average		
Oil Products and Chemicals	23	5	13	19	21	6	13	11
Gas & Power	20	6	11	7	16	4	9	9

2. Nature and Extent of Risks

Case

Reference to the time horizon and confidence level of some entities used in VaR analysis for 2007.....

<u>Entity name</u>	<u>Time horizon</u>	<u>Confidence</u>	<u>Method</u>	<u>Coverage</u>
BASF	1 day	95%	VC	Commodity
BMW	3 months	99%	HS	Interest
BP plc	24 hours	95%	VC or HS	Market risk
CLP	4 weeks	95%	VC	Energy price
DBS Group	1 day	99%	HS	Trading market risk
HKEx	10 day	95%	HS	Market risk
HSBC	1 day	99%	HS	Market risk
Nokia	1 month	95%	VC or MC	Market risk
Shell	24 hours	95%	VC or MC	Price risk
Standard Chartered	1 day	97.5%	HS	Trading book

Variance-Covariance (VS), Historical simulation (HS) and Monte Carlo simulation (MC)

Today's Agenda



Overview of the Latest Development
(effected after 2007-08)

Latest New and Amended IFRSs/HKFRSs

Selected new interpretations and amendments to IFRSs and HKFRSs issued in 2007 to 2008

	<u>Effective for periods beginning on/after</u>
• IFRIC 12 <i>Service Concession Arrangements</i> (2007)	➤ 1 Jan. 2008
• IFRIC 13 <i>Customer Loyalty Programmes</i> (2007)	➤ 1 Jul. 2008
• IFRS 8 <i>Operating Segments</i> (2007)	➤ 1 Jan. 2009
• IAS 1 <i>Presentation of Financial Statements</i> (2007)	➤ 1 Jan. 2009
• IAS 27 <i>Consolidated and Separate Financial Statements</i> (2008)	➤ 1 Jul. 2009
• IFRS 3 <i>Business Combination</i> (2008)	➤ 1 Jul. 2009

Latest New and Amended IFRSs/HKFRSs

Selected new interpretations and amendments to IFRSs and HKFRSs issued in 2007 to 2008

	<u>Entities or industries affected</u>
• IFRIC 12 <i>Service Concession Arrangements</i> (2007)	➤ Infrastructure entities
• IFRIC 13 <i>Customer Loyalty Programmes</i> (2007)	➤ Airlines, credit card, retailers
• IFRS 8 <i>Operating Segments</i> (2007)	➤ All listed entities
• IAS 1 <i>Presentation of Financial Statements</i> (2007)	➤ All entities
• IAS 27 <i>Consolidated and Separate Financial Statements</i> (2008)	➤ All entities
• IFRS 3 <i>Business Combination</i> (2008)	➤ All entities

Latest New and Amended IFRSs/HKFRSs

Selected new interpretations and amendments to IFRSs and HKFRSs issued in 2007 to 2008

	Possible impact	Possible extent of impact
• IFRIC 12 <i>Service Concession Arrangements</i> (2007)	➤ Classification of items	➤ Medium
• IFRIC 13 <i>Customer Loyalty Programmes</i> (2007)	➤ Profit reduced initially	➤ Medium
• IFRS 8 <i>Operating Segments</i> (2007)	➤ Disclosure only	➤ Medium
• IAS 1 <i>Presentation of Financial Statements</i> (2007)	➤ Presentation & classification	➤ Medium to high
• IAS 27 <i>Consolidated and Separate Financial Statements</i> (2008)	➤ Profit	➤ Medium to high
• IFRS 3 <i>Business Combination</i> (2008)	➤ Profit and balances	➤ Medium to high

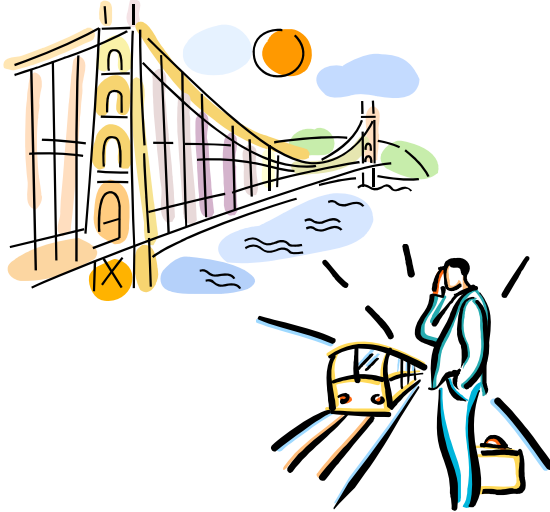
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Impact of the Latest Development

Service Concession Arrangements

(IFRIC Interpretation 12)



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Background

- An arrangement within the scope of this Interpretation, “Service Concession Arrangements”, typically involves
 - a private sector entity (an operator)
 - constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and
 - operating and maintaining that infrastructure for a specified period of time.
- The operator is paid for its services over the period of the arrangement.
 - The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.
- Such an arrangement is often described as
 - a “build-operate-transfer” (BOT),
 - a “rehabilitate-operate-transfer” (ROT) or
 - a “public-to-private” service concession arrangement.



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IFRIC Interpretation 12

Affect the balance sheet classification

- IFRIC Interpretation 12
 - gives guidance on the accounting by operators for public-to-private service concession arrangements
- The operator's investment in building the infrastructure shall not be recognised as property, plant and equipment
 - Recognised depending on whether there is any unconditional right to receive cash or other financial asset



Financial Asset

Unconditional contractual right to receive cash or other FA

Intangible Asset

A right (a licence) to charge users

IFRIC Interpretation 12

Case

China Communications Construction Company Ltd.

Annual Report

- IFRIC 12, *Service Concession Arrangements*,
 - was early adopted in 2006.
- The assets are classified
 - as intangibles if the operator receives a right (a license) to charge users of the public service or
 - as financial assets if paid by the granting authority.
- The Group classified the non-current assets linked to the long-term investment in these concession arrangements as
 - “concession assets” within intangible assets classification on the balance sheet if the intangible asset model is adopted.
- Once the underlying infrastructure of the concession arrangements is completed,
 - the concession assets will be amortised over the term of the concession on a straight-line basis under the intangible asset model.




Customer Loyalty Programmes

(IFRIC Interpretation 13)

三賞一免佣優惠*

以商務「網上理財」交易本地證券，
尊享多重優惠。

▶詳情 *條款及細則適用



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Background



- Customer loyalty programmes are used by entities to provide customers with incentives to buy their goods or services.
 - If a customer buys goods or services, the entity grants the customer award credits (often described as "points").
 - The customer can redeem the award credits for awards such as free or discounted goods or services.
- The programmes operate in a variety of ways.
 - Customers may be required to accumulate a specified minimum number or value of award credits before they are able to redeem them.
 - Award credits may be linked to individual purchases or groups of purchases, or to continued custom over a specified period.
 - The entity may operate the customer loyalty programme itself or participate in a programme operated by a third party.
 - The awards offered may include goods or services supplied by the entity itself and/or rights to claim goods or services from a third party.

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IFRIC Interpretation 13

- An entity shall
 - account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the "initial sale").
- The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between
 - the award credits and
 - the other components of the sale.

Separately
Identifiable
Component

Fair Value

Award Credit

Other
Components

IFRIC Interpretation 13

Example

- When the goods and services related to the award credit can be used by the customers in future, the fair value of the award credit should be deferred and recognised as a payable.

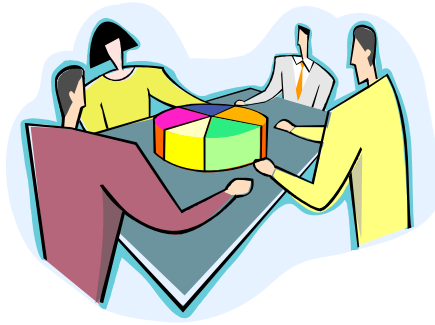
- Sales of \$10,000 with a fair value of award credit of \$1,000
 - The recognised sale for the year should only be \$9,000
 - The fair value of award credit of \$1,000 is deferred and recognised when the goods or services relating to the award credit have been provided.

Fair Value

Award Credit

Revenue and profit may be reduced initially (deferred to future period)

IFRS 8 Operating Segments



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Background

- IFRS 8 arises from the IASB's consideration of
 - FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131 of United States) issued in 1997, compared with IAS 14 *Segment Reporting*, which is similar to IAS 14.
- IFRS 8 achieves convergence with the requirements of SFAS 131.
 - The wording of IFRS 8 is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs.



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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

- IFRS 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 IFRS 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.

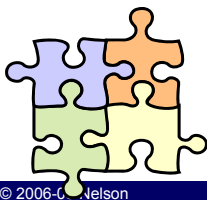
Operating Segments

- 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.

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

Not necessary be geographical areas or products

Operating Segments



Operating Segments

- An entity shall report a measure of profit or loss and total assets for each reportable segment.
- An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker.



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Operating Segments

More informative segment details may be available

- 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 IAS 14 (the old approach),
 - IAS 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.
 - IAS 14 defines segment revenue, segment expense, segment result, segment assets and segment liabilities
 - IFRS 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.

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Presentation of Financial Statements

(IAS 1 Revised in 2007)



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IAS or HKAS 1

- 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 IAS 1.

Previously, we call it "Balance Sheet"

Previously, we call it "Income Statement"

3 years' "balance sheets"

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IAS or HKAS 1

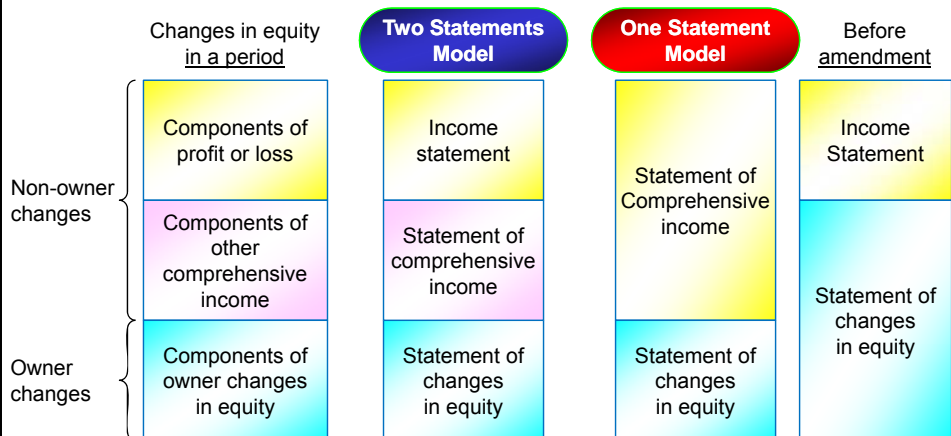
- Statement of comprehensive income can be further divided into 2 statements
- An entity shall present all items of income and expense recognised in a period:
 - a) in a single statement of comprehensive income, or
 - b) in two statements:
 - a statement displaying components of profit or loss (*separate income statement*) and
 - a second statement beginning with profit or loss and displaying components of other comprehensive income (*statement of comprehensive income*).

One Statement Model

Two Statements Model

Comprehensive income concept used in US since 90s

IAS or HKAS 1



IAS or HKAS 1

- 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.

Components of other comprehensive income

- Other comprehensive income may include:
 - a) changes in revaluation surplus (see IAS 16);
 - b) actuarial gains and losses on defined benefit plans recognised;
 - c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21);
 - d) gains and losses on remeasuring available-for-sale financial assets (see IAS 39);
 - e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see IAS 39).

IAS or HKAS 1

- IAS 1 requires an entity to disclose in the statement of comprehensive income:
 - each component of other comprehensive income classified by nature
 - share of the other comprehensive income of associates and joint ventures accounted for using the equity method
 - total comprehensive income.

Statement of Comprehensive income



Presentation and classification of "income" affected

Consolidation and Business Combinations

(IAS 27 and IFRS 3 Revised in 2008)

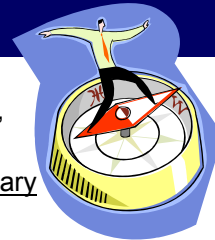


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Consolidation Procedures

- Minority interests renamed as “non-controlling interests”, and most critical
 - Changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control
 - are accounted for as equity transactions (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.



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

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Recognition of An Acquisition

- The acquirer shall **measure** the identifiable assets acquired and the liabilities assumed

- at their **acquisition-date fair values**.

Affect acquisition in stages

- For each business combination, the acquirer shall **measure** any non-controlling interest in the acquiree either

- at **fair value** or

New alternative (“entity concept”)

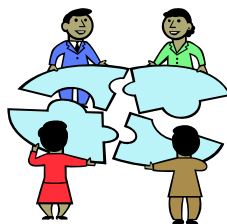
- at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

Existing practice

2 figures of non-controlling interests may be resulted

2 figures of goodwill may also be resulted

Recognition of An Acquisition



Realised gains or losses on previously held interest may be recognised in profit or loss

- In a business combination achieved in stages, the acquirer shall
 - remeasure its previously held equity interest in the acquiree **at its acquisition-date fair value** and
 - recognise the resulting gain or loss, if any, in profit or loss.

The Acquisition Method

Example

<u>On 1.1.2010</u>	<u>Parent P</u>	<u>Sub S</u>
Property	\$ 0	\$ 6,000
Investment	0	0
Cash at bank	<u>30,000</u>	<u>2,000</u>
	<u>30,000</u>	<u>8,000</u>
Issued equity	\$ (30,000)	\$ (5,000)
Retained earnings	<u>0</u>	<u>(3,000)</u>
	<u>(30,000)</u>	<u>(8,000)</u>

On 1.1.2010

- Parent P acquired 20% interest in Subsidiary S at \$3,500 by cash.
- Fair value of the property of S was \$8,000.

During 2010

- Parent P reported nil profit and profit of S was \$6,000 (became cash).
- Fair value of S is \$30,000 at year-end.
- P accounted for S as held for trading.

On 1.1.2011

- P acquired additional 60% interest in S at \$22,000 by cash.
- Fair value of the property of S was \$11,000.

The Acquisition Method

Example

<u>On 1.1.2011</u>	<u>Parent P</u>	<u>Sub S</u>	<u>Old</u>	<u>New 1</u>	<u>New 2</u>
Property	\$ 0	\$ 6,000	\$ 11,000	\$ 11,000	\$ 11,000
Goodwill	0	0	12,100	14,133	17,666
Investment	28,000	0	0	0	0
Cash at bank	<u>4,500</u>	<u>8,000</u>	<u>12,500</u>	<u>12,500</u>	<u>12,500</u>
	<u>32,500</u>	<u>14,000</u>	<u>35,600</u>	<u>37,633</u>	<u>41,166</u>
Issued equity	\$ (30,000)	\$ (5,000)	\$(30,000)	\$(30,000)	\$(30,000)
Retained earnings	(2,500)	(9,000)	(1,200)	(3,833)	(3,833)
Revaluation reserves	0	0	(600)	0	0
Non-controlling interests	<u>0</u>	<u>0</u>	<u>(3,800)</u>	<u>(3,800)</u>	<u>(7,333)</u>
	<u>(32,500)</u>	<u>(14,000)</u>	<u>(35,600)</u>	<u>(37,633)</u>	<u>(41,166)</u>

Gain on previously held interests

Two goodwill & non-controlling int. figures

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