

# IFRS and HKFRS Update and Challenge

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## Effective for 2010 Dec. Year-End

### Selected new interpretations and amendments to IFRSs

- IFRS 1 (Revised) *First-time Adoption of IFRS*
- Amendments to IFRS 1 *Additional Exemptions for First-time Adopters*
- Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
- IAS 27 (Revised) *Consolidated and Separate Financial Statements*
- IFRS 3 (Revised) *Business Combination*
- Amendments to IAS 39 *Eligible Hedged Items*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Annual Improvements to IFRSs 2009
- IFRS for SME (for HK: HKFRS for Private Entities)
- (For HK only) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

### Effective for periods beginning on/after

- 1 Jul. 2009
- 1 Jan. 2010
- 1 Jan. 2010
- 1 Jul. 2009
- 1 Jul. 2009
- 1 Jul. 2009
- 1 Jul. 2010
- 1 Jan. 2010 & e
- Effective upon issue
- Immediate effect

## Effective for 2011 Dec. Year-End

### Selected new interpretations and amendments to IFRSs

- Amendments to IAS 32 *Classification of Rights Issues*
- IAS 24(Revised) *Related Party Disclosures*
- Amendments to IFRIC 14 IAS 19 —*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- Amendment to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
- Annual Improvements to IFRSs 2010

### Effective for periods beginning on/after

- 1 Feb. 2010
- 1 Jan. 2011 
- 1 Jan. 2011
- 1 Jul. 2010
- 1 Jan. 2011 (unless specified)

## Effective after 2011 Dec. Year-End

### Selected new interpretations and amendments to IFRSs

- Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards—Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments of IAS 12 *Deferred Tax: Recovery of Underlying Assets*
- IFRS 9 *Financial Instruments (with additions of financial liabilities in 2010)*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*

### Effective for periods beginning on/after

- 1 Jul. 2011
- 1 Jul. 2011
- 1 Jan. 2012 
- 1 Jan. 2013 
- 1 Jan. 2013 
- 1 Jan. 2013 
- 1 Jan. 2013 
- 1 Jan. 2013 

# Consolidated Financial Statements

(IAS 27 Revised in 2008)



## IAS 27 (Revised in 2008)

- Scope and definitions
- Presentation of consolidated financial statements
- Scope of consolidated financial statements
- Consolidation procedures
- Loss of control
- Accounting in separate financial statements

Significant changes

New section



## Consolidation Procedures

- 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.

## 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 IFRSs, the amounts identified in IAS 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

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

- The subsidiary has available-for-sale financial assets
- The subsidiary has property, plant and equipment with revaluation surplus previously recognised in other comprehensive income

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

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

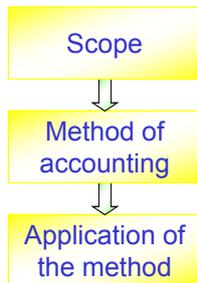
- since the revaluation surplus would be transferred directly to retained earnings on the disposal of the asset

# Business Combinations

(IFRS 3 Revised in 2008)



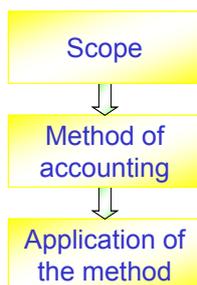
## Introduction – Key Changes



- Extended the scope, i.e. less exemption
- Acquisition-date fair value extensively applied, including:
  - Non-controlling interests (or minority interests) can be measured at “full” fair value approach
  - Goodwill can incorporate the goodwill of non-controlling interests
  - Intangible asset identified in the business combination shall be measured at fair value
  - Contingent consideration shall be measured at fair value
- Step acquisition shall be measured by a different approach
- All transactions costs to be expensed



## The Acquisition Method



- An entity shall account for each business combination by applying **the acquisition method**. (IFRS 3.4)
- Applying the acquisition method requires:
  - a) identifying **the acquirer**; Guidance in IAS 27
  - b) determining **the acquisition date**; Date of control obtained
  - c) recognising and measuring
    - the **identifiable assets acquired**,
    - the **liabilities assumed** and
    - any **non-controlling interest** in the acquiree; and
  - d) recognising and measuring
    - **goodwill** or
    - **a gain from a bargain purchase**. (IFRS 3.5)

## The Acquisition Method

- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree
- The acquirer's application of the recognition principle and conditions may result in
  - recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements.



## 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 (IFRS 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 (IFRS 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**. (IFRS 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**. (IFRS 3.19)

New alternative ("full goodwill method")

Existing practice

# The Acquisition Method

## Example

### Existing Methodology

	HK\$
Fair value of identifiable net assets of Entity A	100
Purchase 75% interest in Entity A (consideration is \$120)	120
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
<b>Goodwill</b> (\$120 - \$75)	<b>45</b>

# The Acquisition Method

Example

Existing Methodology		New Methodology ("Full goodwill method")	
	HK\$		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

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# The Acquisition Method

Critical Amendment

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

- The acquirer shall **recognise goodwill** as of the acquisition date measured as the excess of (a) over (b) below:

Application of the method

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

Practices changed

- the aggregate of:
  - the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value;
  - the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3; and
  - in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3. (IFRS 3.32)

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# The Acquisition Method

Example

Existing Methodology		
		HK\$
Fair value of identifiable net assets of Entity A		<u>100</u>
Purchase 75% interest in Entity A (consideration is \$120)		120
Parent's interest – 75% of fair value of identifiable net assets (\$100 × 75%)		<u>75</u>
Non-controlling interest (\$100 × 25%) (at its proportionate share of Entity A's identifiable net assets)		
Goodwill (\$120 - \$75)		45

# The Acquisition Method

Example

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

$$\begin{aligned}
 & \$ (120 + 25) - \$ 100 \\
 & = \$ 45
 \end{aligned}$$

# The Acquisition Method

## Example

Existing Methodology		New Methodology	
	HK\$	HK\$	HK\$
Fair value of identifiable net assets of Entity A	<u>100</u>	<u>100</u>	<u>100</u> ← <b>b</b>
Purchase 75% interest in Entity A (consideration is \$120)	120	120	120 ← <b>a(i)</b>
Parent's interest – 75% of fair value of identifiable net assets (\$100 × 75%)	<u>75</u>		$\$120 \div 75\% = \$160$
Non-controlling interest (\$100 × 25%) (at its proportionate share of Entity A's identifiable net assets)		<u>25</u>	$\$160 \times 25\% = 40$ ← <b>a(ii)</b>
		<u>145</u>	<u>160</u>
Goodwill (\$120 - \$75)	45	45	60

$$(\$120 + 40) - \$100 = \$60$$

# The Acquisition Method

- Additional guidance
  - Amended practices on business combination achieved in stages

- 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. (IFRS 3.42)

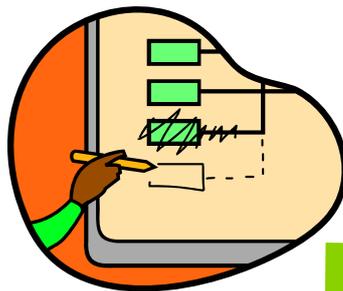


# The Acquisition Method

- Acquisition-related costs

- Acquisition-related costs are costs the acquirer incurs to effect a business combination.
  - Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities.
- The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. (IFRS 3.53)
- The costs to issue debt or equity securities shall be recognised in accordance with IAS 32 and IAS 39.

# Improvements to IFRSs 2009



# Introduction

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



# Summary

## Amendments to

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

# Amendments to IAS 1



## IAS 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 holds 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 IAS 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 IAS 17

Do you remember these 2 paragraphs in IAS 17?

## IAS 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.

## Amendments to IAS 17

Do you remember these 2 paragraphs in IAS 17?

### IAS 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 has an indefinite economic life.
- 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 IAS 17.7–13 and
  - the specific lease classification guidance in IAS 17.14 and 15 related to long-term leases of land and buildings.
- The IASB concluded that the guidance in IAS 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 IAS 17

### IAS 17 Leases

- IAS 17.14 and 15 are deleted and IAS 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 IAS 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 IAS 17

## Example

- IAS 17.BC8B and BC8C states 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 IAS 17

## Case

### Financial Statements 2009



- Note 2 states (for early adoption of Amendment to HKAS 17 in 2009):
  - The early adoption of the amendment to HKAS 17 has resulted in a change in accounting policy for the classification of leasehold land of the Group.
  - Previously, leasehold land was classified as an operating lease and stated at cost less accumulated amortisation.
  - In accordance with the amendment, leasehold land is classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group.
    - As the present value of the minimum lease payments (ie, the transaction price) of the land held by the Group amounted to substantially all of the fair value of the land as if it were freehold,
      - the leasehold land of the Group has been classified as a finance lease.
        - The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases. The amendment does not apply to the leasehold land disposed of by the Group in prior years.

## Amendments to IAS 17

### Case



#### Financial Statements 2010

- Note 2 states “Amendments to HKAS 17 Leases” as follows:
  - As part of Improvements to HKFRSs issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land ..... The amendments to HKAS 17 require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not risks and rewards incidental to ownership of a leased asset have been transferred substantially to the lessee.
  - In accordance with the transitional provisions ..... the Group reassessed the classification of unexpired leasehold land as at 1 Jan. 2010 based on information that existed at the inception of these leases.
  - Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant and equipment and has been measured using the revaluation model on a retrospective basis.
  - The application of the amendments has had no significant financial impact to the Group’s consolidated income statements for the current and prior periods.

## Amendments to IAS 17

### Case



#### Financial Statements 2010

- Note 2 states:
  - HKAS 17 (amendment), “Leases”, deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification.
    - As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards of ownership of an asset to the lessee.
    - Prior to the amendment, land has been classified as under an operating lease when the title to that land is not expected to pass to the Group at the end of the lease term.

## Amendments to IAS 17

### Case



Financial Statements 2010

- Note 2 states:
  - The Group has reassessed the classification of leases of land as at 1 January 2010.
    - As a result of the reassessment, the Group has reclassified certain leasehold land in Hong Kong from under operating lease to finance lease.
    - As the leasehold land is held for own use, it is classified as fixed assets on the statement of financial position and is depreciated over the unexpired term of the lease.

## Amendments to IAS 17

### Case



Financial Statements 2010

- Note 2 states:
  - HKAS 17 (amendment) has been applied retrospectively with comparatives restated. The effect of the resulting changes on the consolidated statement of financial position is summarised below. There are no effects on the consolidated income statement and the consolidated statement of comprehensive income.

	At 31 December 2010 HK\$M	At 31 December 2009 HK\$M	At 1 January 2009 HK\$M
Increase in fixed assets	412	494	543
Decrease in leasehold land and land use rights under operating leases	(412)	(494)	(543)
Change in net assets	–	–	–

## Amendments to IAS 18

### IAS 18 Revenue

- Appendix to IAS 18 is added with Example 21: Determining whether an entity is acting as a principal or as an agent (2009 amendment).
- IAS 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 IAS 18

### IAS 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 IAS 18

### IAS 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.

## Presentation of Financial Statements – Classification of Loan (HK Interpretation 5)



## HK Interpretation 5

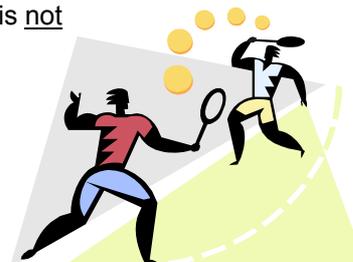


HKAS 1.69 states that:

- An entity shall classify a liability as **current** when:
  - a) it expects to settle the liability in its normal operating cycle;
  - b) it holds 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.
- All other liabilities shall be classified as **non-current**.

## HK Interpretation 5

- The classification of a term loan as a current or non-current liability in accordance with HKAS 1.69(d)
  - shall be determined by reference to the rights and obligations of the lender and the borrower, as contractually agreed between the two parties and in force as of the reporting date.
  - In this regard, the probability of the lender choosing to exercise its rights within the next twelve months after the reporting date is not relevant.



## HK Interpretation 5

- The classification of a term loan in accordance with HKAS 1.69(d)
  - (instead) shall depend on whether or not the borrower has an unconditional right to defer payment for at least twelve months after the reporting period.
    - Consequently, amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as **current** in its statement of financial position.
    - This is because the borrower under such an agreement does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.



## HK Interpretation 5

- Similarly, in the contractual maturity analysis disclosed by the borrower in accordance with HKFRS 7.39(a), amounts repayable under a loan agreement that includes a clause that gives the lender the unconditional right to call the loan at any time
  - shall be classified in the earliest time bracket, in accordance with the guidance in HKFRS 7.B11C(a).



# HK Interpretation 5

## Effective Date

- HK Interpretation 5 is a clarification of an existing standard and shall have immediate effect.

## Transition

- Where the initial application of this Interpretation constitutes a change in accounting policy,
  - it should be accounted for retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.



# HK Interpretation 5

## Example

- HKICPA issued a set of Illustrative disclosures in respect of HK Interpretation 5 in Jan. 2011, including
  - Illustrative wordings on changes in accounting policies, maturity analysis under HKFRS 7 and other, for example:

### *Effect of adoption of Hong Kong Interpretation 5 on the statement of financial position*

	<i>At 31 December 2010</i>	<i>At 31 December 2009</i>	<i>At 1 January 2009</i>
	\$'000	\$'000	\$'000
<b>Increase/(decrease) in</b>			
<b>Current liabilities</b>			
Bank borrowings	3,500	4,000	5,000
<b>Non-current liabilities</b>			
Bank borrowings	(3,500)	(4,000)	(5,000)

# IFRS for SME



## Introduction



- In July 2009, the IASB issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

- HKICPA considers that IFRS for SMEs should be adopted in Hong Kong as a reporting option for eligible private entities.
- Then, in April 2010, **HKFRS for Private Entities** is issued with certain amendments to suit Hong Kong's circumstances



## Introduction

- Compared with IFRS for SMEs, HKFRS for Private Entities has the following differences:
  - a. Replacing the term “SMEs” in IFRS for SMEs by “Private Entities”;
  - b. Replacing the recognition and measurement principles in section 29 Income Tax of the IFRS for SMEs with the extant version of HKAS 12 Income Taxes; and
  - c. The measurement of deferred tax liabilities associated with an investment property measured at fair value is capped at the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period. (P13)



## Similar to IFRS

<u>35 sections in IFRS for SME (HKFRS for PE)</u>	<u>Equivalent IFRS</u>
3 Financial Statement Presentation	⇐ IAS 1
4 Statement of Financial Position	⇐ IAS 1
5 Statement of Comprehensive Income & Income Statement	⇐ IAS 1
7 Statement of Cash Flows	⇐ IAS 7
8 Notes to the Financial Statements	⇐ IAS 1
10 Accounting Policies, Estimates and Errors	⇐ IAS 8
13 Inventories	⇐ IAS 2
20 Leases	⇐ IAS 17
21 Provisions and Contingencies	⇐ IAS 37
23 Revenue	⇐ IAS 18
27 Impairment of Assets	⇐ IAS 36
29 Income Tax	⇐ IAS 12
32 Events after the End of the Reporting Period	⇐ IAS 10

## Minor Differences from IFRS

### 35 sections in IFRS for SME (HKFRS for PE)

1	Private Entities	
2	Concepts and Pervasive Principles	
6	Statement of Changes in Equity and Statement of Income and Retained Earnings	A new alternative
16	Investment Property	Fair value model only
18	Intangible Assets Other Than Goodwill	No revaluation model & indefinite life
22	Liabilities and Equity	
28	Employee Benefits	Differences on defined benefit plan
31	Hyperinflation	

## Some Differences from IFRS

### 35 sections in IFRS for SME (HKFRS for PE)

9	Consolidated and Separate Financial Statements	Based on original IAS 27
11	Basic Financial Instruments	Significant differences (more fair value)
12	Other Financial Instruments Issues	Significant differences (more fair value)
14	Investments in Associates	Three alternatives and no proportionate consolidation
15	Investments in Joint Ventures	No revaluation model
17	Property, Plant and Equipment	Based on original IFRS 3
19	Business Combinations and Goodwill	More restrictive
24	Government Grants	Expense only
25	Borrowing Costs	
26	Share-Based Payment	No recycling upon disposal
30	Foreign Currency Translation	Based on ED not revised final IAS 24
33	Related Party Disclosures	
34	Specialised Activities	
35	Transition to the IFRS for SME (HKFRS for Private Entities)	Most critical and difficult?

## Section 1: Private Entities

- Private entities are entities that:
  - a. do not have **public accountability**, and
  - b. publish general purpose financial statements for external users. (1.2)

**Public  
Accountability**

**External Users**

An entity has **public accountability** if:

- a. its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- b. it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
  - This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

## Section 3: Financial Statement Presentation

- Complete set of financial statements
  - a. A statement of financial position as at the reporting date
  - b. A single statement of comprehensive income (or a separate income statement and a separate statement of comprehensive income) for the reporting period
  - c. A statement of changes in equity for the reporting period
  - d. A statement of cash flows for the reporting period
  - e. Notes, comprising a summary of significant accounting policies and other explanatory information (3.17)

IAS 1 requires but IFRS for SME does not require

- a statement of financial position as at the beginning of the earliest comparative period (i.e. 3rd year's balance sheet)
  - a. when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or
  - b. when it reclassifies items in its financial statements.

## Section 9: Consolidated and Separate Fin. S.

- **Combined financial statements**

Not covered by IAS 27

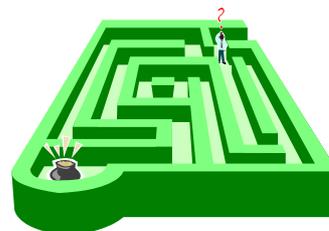
- are a single set of financial statements of two or more entities controlled by a single investor.
- IFRS for SME does not require combined financial statements to be prepared. (9.28)
- However, if the investor prepares combined financial statements and describes them as conforming to the HKFRS for Private Entities,
  - those statements shall comply with all of the requirements of this HKFRS. (9.29)
- IFRS for PE 9.29 and 9.30 specifies the requirements and disclosures in combined financial statements



## Section 11: Basic Financial Instruments

- Definition of financial instruments are similar to IAS 32
- To account for all of its financial instruments, an entity shall choose to apply either:
  - a. the provisions of both sections 11 and 12 of IFRS for SME in full, or
  - b. the recognition and measurement provisions of IAS 39 and the disclosure requirements of sections 11 and 12 of IFRS for SME. (11.2)

- No such accounting choice in full IFRS
- The impact of IFRS 9 has not been covered in IFRS for SME



## Section 11: Basic Financial Instruments

### Basic Financial Instruments

- Section 11 applies to basic financial instruments and is relevant to all entities.

- Section 11 requires an amortised cost model for all basic financial instruments, except for
  - investments in non-convertible and non-puttable preference shares and non-puttable ordinary shares
    - that are publicly traded or
    - whose fair value can otherwise be measured reliably. (11.4)

### More Complex Financial Instruments

- Section 12 applies to other, more complex financial instruments and transactions.

## Section 11: Basic Financial Instruments

### Basic Financial Instruments

- An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11:
  - a. cash
  - b. a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in IFRS for SME 11.9
  - c. a commitment to receive a loan that:
    - i. cannot be settled net in cash, and
    - ii. when the commitment is executed, is expected to meet the conditions in IFRS for SME 11.9
  - d. an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares (19.8)

Debt Instrument  
Characteristics  
(IFRS for SME 11.9)

## Section 11: Basic Financial Instruments

### Initial Recognition and Initial Measurement

- Recognise only when the entity becomes a party to the contractual provisions of the instrument. (11.12) ← Similar to IAS 39
- Initially measure at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss)
  - unless the arrangement constitutes, in effect, a financing transaction. (11.13)

IAS 39 and IFRS 9 require "fair value plus transaction cost"

Fair value is normally the transaction price,

- unless part of the consideration given or received is for something other than the financial instrument



## Section 11: Basic Financial Instruments

### Subsequent Measurement

- At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:
  - a. **Debt instruments** (that meet the conditions in IFRS for SME) shall be measured at amortised cost using the effective interest method.
  - b. **Commitments to receive a loan** (that meet the conditions in IFRS for SME) shall be measured at cost (which sometimes is nil) less impairment.
  - c. Investments in **non-convertible preference shares and non-puttable ordinary or preference shares** (that meet the conditions in IFRS for SME) shall be measured as follows :
    - i. if the shares are publicly traded or their fair value can otherwise be measured reliably, the investment shall be measured at fair value with changes in fair value recognised in profit or loss.
    - ii. all other such investments shall be measured at cost less impairment. (11.14)

## Section 11: Basic Financial Instruments

### Impairment of those Measured at Cost or Amortised Cost

- At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost.
- If there is objective evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately. (11.14)
- An entity shall assess the following financial assets individually for impairment:
  - a. all equity instruments regardless of significance, and
  - b. other financial assets that are individually significant.
- An entity shall assess other financial assets for impairment either
  - individually or
  - grouped on the basis of similar credit risk characteristics. (11.24)

IAS 39 also covers asset at fair value

## Section 12: Other Fin. Instruments Issues

### Basic Financial Instruments

- Section 11 applies to basic financial instruments and is relevant to all entities.



### More Complex Financial Instruments

- Section 12 applies to other, more complex financial instruments and transactions.
  - Same initial recognition criteria as Section 11
  - However, initial measurement at **fair value**, which is normally the transaction price (12.7)

## Section 12: Other Fin. Instruments Issues

More Complex  
Financial Instruments

### Subsequent Measurement

- At the end of each reporting period, an entity shall
  - measure all financial instruments within the scope of Section 12 at fair value and
  - recognise changes in fair value in profit or loss, except the following instruments
- Equity instruments
  - that are not publicly traded and
  - whose fair value cannot otherwise be measured reliably, andContracts linked to such instruments that, if exercised, will result in delivery of such instruments,
  - shall be measured at cost less impairment. (12.8)

## Section 12: Other Fin. Instruments Issues

More Complex  
Financial Instruments

### Impairment

- Only on those financial instruments measured at cost less impairment
  - as those for basic financial instruments in section 11 (12.13)

### Derecognition

- Same as those for basic financial instruments in section 11 (12.14)



## Section 14: Investments in Associates

- Definition of associate is same as IAS 28
  - i.e. significant influence (but not control or joint control)
  - IAS 28 has some examples to indicate the existence of significant influence
- An investor shall account for all of its investments in associates using one of the following: (14.4)

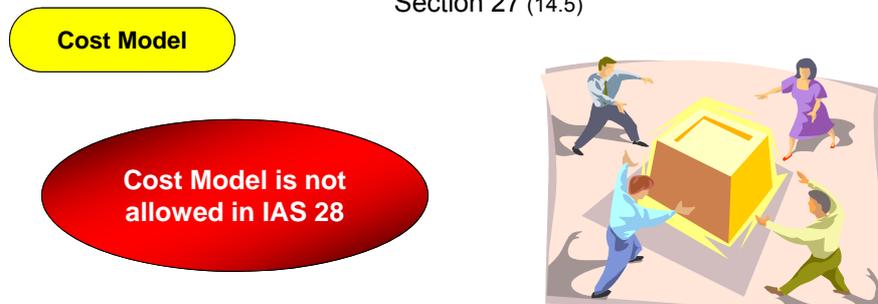


## Section 14: Investments in Associates

IFRS for SME requires investments in associates for which there is a published price quotation

- Measured by using the **Fair Value Model** (14.7)

- An investor shall measure its investments in associates, other than those for which there is a published price quotation
  - at cost
  - less any accumulated impairment losses recognised in accordance with Section 27 (14.5)



## Section 16: Investment Property

- Definition of investment property → Same as IAS 40
- Initial recognised at cost → Similar to IAS 40
- However, investment property whose fair value can be measured reliably without undue cost or effort shall be measured
  - at **fair value** at each reporting date with changes in fair value recognised in profit or loss.
- For all other investment property,
  - An entity shall account for them as property, plant and equipment using the cost-depreciation-impairment model in Section 17. (16.7)

No choice!



IAS 40 gives a choice to an entity, but IFRS for SME does not give such choice!

## Section 17: Property, Plant and Equipment

- Definition of property, plant and equipment → Same as IAS 16
- Initial recognised at cost → Similar to IAS 16
- An entity shall measure all items of property, plant and equipment after initial recognition
  - at cost
  - less any accumulated depreciation and any accumulated impairment losses.
- An entity shall recognise the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred. (17.15)

No revaluation model allowed



IAS 16 allows an entity to use Revaluation Model, but IFRS for SME does not allow!

## Section 18: Intangible Assets (excl. Goodwill)

- Definition of intangible asset → Same as IAS 38
- Initial recognised at cost → Similar to IAS 38
- However, internally generated intangible assets cannot be recognised as intangible assets
  - Recognise expenditure incurred internally on an intangible item, including all expenditure for both R&D activities, as an expense when it is incurred (18.14)
- After recognition (for acquired intangible assets), an entity shall measure them
  - at cost less any accumulated depreciation and any accumulated impairment losses. (18.18)

No revaluation model allowed

IAS 38 allows an entity to use Revaluation Model on limited cases, but IFRS for SME does not allow!



## Related Party Disclosures

(IAS 24)



## Key Amendments

- Related party – Definition change
- Government-related entities – Definition and Exemption
- Commitment is included for disclosure



## Definition of a Related Party

- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
  - a) A person or a close member of that person's family is related to a reporting entity if that person:
    - i. has control or joint control over the reporting entity;
    - ii. has significant influence over the reporting entity; or
    - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

## Definition of a Related Party

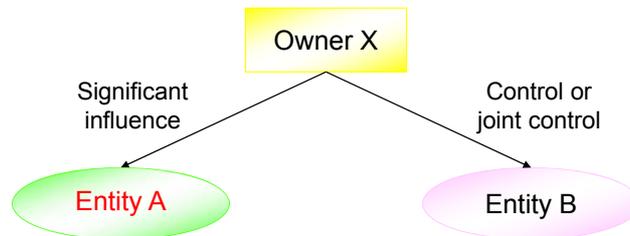
- A **related party** is a person or entity that is related to the entity that is preparing its financial statements (i.e. reporting entity).
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, sub. and fellow sub. is related to the others).
  - ii. One entity is an associate or JV of the other entity (or an associate or JV of a member of a group of which the other entity is a member).
  - iii. Both entities are JV of the same third party.
  - iv. One entity is a JV of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## Definition of a Related Party – Key Changes

- Clearly separate the related party to 2 angles:
  - 1) Person (replaced “individual” as well), and
  - 2) Entity
- Eliminate inconsistencies in the definition and make it symmetrical:
  - When Entity A is identified as a related party in Entity B’s financial statements, Entity B will also be identified as related party in Entity A’s financial statements.
- Entities with only “common significant influence” (no matter from an entity or a person) are not related to each other
- However, whenever a person or entity has both
  - joint control over Entity X and
  - joint control or significant influence over Entity Y,
    - Entity X and Y are related to each other.

## Definition of a Related Party – Key Changes

### Example



- Entity A and B are related to each other in both Entity A's and B's financial statements
- Previously, they are not regarded as related parties.

## Definition of a Related Party – Key Changes

- Remove the term "significant voting power" in the definition of a related party
- Clarify that
  - An associate includes subsidiaries of the associate and
  - A joint venture includes subsidiaries of the joint venture
  - Two entities are not related parties simply because a member of key management personnel of one entity has significant influence over the other entity.
- Amended that
  - Close members of the family of an individual are (not may) those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (not "they may include" as in previous IAS 24):
    - a) the person's children and spouse or domestic partner;
    - b) children of the person's spouse or domestic partner; and
    - c) dependants of that person or that person's spouse or domestic partner.

## Disclosures – Government



- A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:
  - a) a government that has control, joint control or significant influence over the reporting entity; and
  - b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. (IAS 24.25)

## Disclosures – Government

- If a reporting entity applies the exemption in IAS 24.25 (last slide), it shall disclose the following about the transactions and related outstanding balances referred to in IAS 24.25:
  - a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
  - b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
    - i. the nature and amount of each individually significant transaction; and
    - ii. for other transactions that are collectively, but not individually, significant,
      - a qualitative or quantitative indication of their extent.  
Types of transactions include those listed in IAS 24.21. (IAS 24.26)

Significant

Not significant

# Recovery of Underlying Asset

(Amendments to IAS 12 Income Tax)



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## Introduction

- IAS 12 *Income Taxes* requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through
  - use or sale.
- It can be difficult and subjective to assess whether recovery will be through use or through sale
  - when the asset is measured using the fair value model in IAS 40 Investment Property.
- The amendment provides a practical solution to the problem
  - by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.

No such exemption for PPE using revaluation model under IAS 16

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## Recovery of Underlying Asset

- If a deferred tax liability or asset arises from investment property that is measured using the fair value model in IAS 40,
  - there is a **rebuttable presumption** that the carrying amount of the investment property will be recovered through sale.
- Accordingly, unless the presumption is rebutted,
  - the measurement of the deferred tax liability or deferred tax asset shall reflect the tax consequences of recovering the carrying amount of the investment property **entirely through sale**. (IAS 12.51C)

i.e. no deferred tax is required when tax on sale is zero!

- This presumption is rebutted if the investment property
  - is depreciable and
  - is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.
- If the presumption is rebutted, the requirements of IAS 12.51 and 51A shall be followed.



## Effective Date and Transition

- An entity shall apply the amendments for annual periods beginning on or after 1 January 2012.
- Earlier application is permitted.
- If an entity applies the amendments for an earlier period, it shall disclose that fact.



## Amendments to IAS 12

### Case



#### Financial Statements 2010

- Note 2 states “Amendments to HKAS 12 *Income Taxes*” as follows:
  - Amendments to HKAS 12 titled “Deferred Tax: Recovery of Underlying Assets” have been applied in advance of their effective date (annual periods beginning on or after 1 January 2012).
    - Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

## Amendments to IAS 12

### Case



#### Financial Statements 2010

- Note 2 states “Amendments to HKAS 12 *Income Taxes*” as follows:
  - As a result, the Group’s investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax liabilities and deferred tax assets in respect of such properties.
    - This resulted in deferred tax liabilities being decreased by HK\$3,409 million and HK\$3,616 million as at 1 January 2009 and 31 December 2009 respectively, with the corresponding adjustment being recognised in retained profits.
  - In the current year, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties.
    - The application of the amendments has resulted in profit for the year being increased by HK\$426 million.

# Financial Instruments

(IFRS 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~~

## 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
- IFRS 9 was issued to maintain international convergence with the issuance of IFRS 9.



## Background

- The three main phases of the project to replace IAS 39 are:
  - a) Phase 1: Classification and measurement of financial assets and financial liabilities.
  - b) Phase 2: Impairment methodology.
  - c) Phase 3: Hedge accounting.
- IFRS 9 issued so far includes only the chapters relating to Phase 1 (classification and measurement of financial assets and financial liabilities).

Additions of Financial Liabilities issued in last quarter of 2010



## Chapter 1 and 2

### Objective

- The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and financial liabilities 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. (para. 1.1)

### Scope

- An entity shall apply IFRS 9 to all assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. (para. 2.1)



## Chapter 3 Recognition & Derecognition

- An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when,
  - the entity becomes party to the contractual provisions of the instrument.
- When an entity first recognises a financial asset, it shall
  - **classify** it in accordance with paragraphs 4.1.1-4.1.5 and
  - **measure** it in accordance with paragraph 5.1.1 and 5.1.2.
- When an entity first recognises a financial liability, it shall
  - **classify** it in accordance with paragraphs 4.2.1 and 4.2.2 and
  - **measure** it in accordance with paragraph 5.1.1. (para. 3.1.1)

Same as before

Amended  
(Ch. 4 of IFRS 9)

Amended  
(Ch. 5 of IFRS 9)

Similar to  
IAS 39

Same para. as  
financial assets

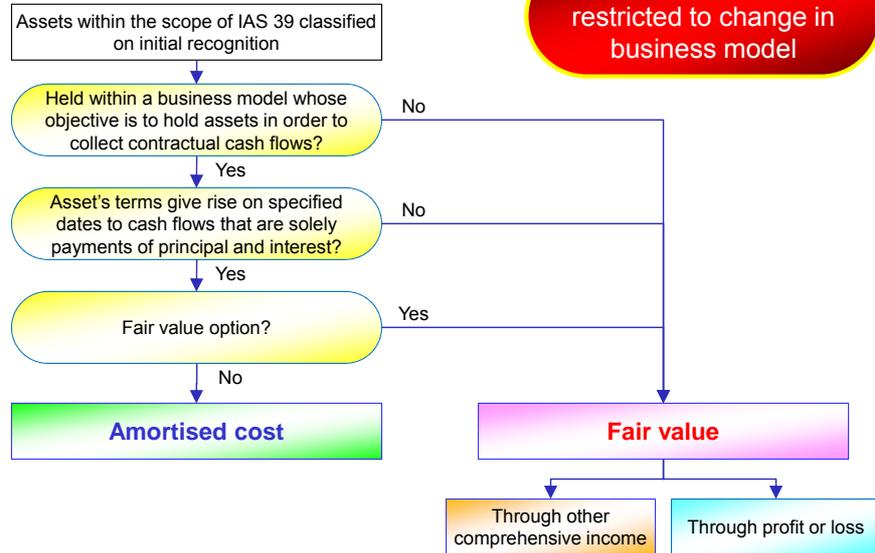
## Chapter 4.1 Classification of FA

- Unless para. 4.1.5 of IFRS 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. 4.1.1)

Amortised cost

Fair value

## Chapter 4.1 Classification of FA



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## Chapter 4.1 Classification of FA

### Case



Financial statements 2009 states that:

- Following the adoption of HKFRS 9, investments and other financial assets of the Group extant at 31 December 2009 are classified under the following categories:

Financial assets measured at **amortised cost**

Investments are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows for managing liquidity and generating income on its investment, but not for the purpose of realising fair value gains; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, with interest being the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and are unleveraged.

Bank deposits, trade and accounts receivable and other deposits are also classified under this category.

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# Chapter 4.1 Classification of FA

## Case



Financial statements 2009 states that:

Financial assets measured at fair value through profit or loss

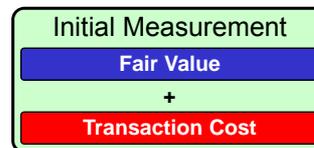
Investments and other financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost.

Securities or bank deposits with embedded derivatives are classified in their entirety as measured at fair value through profit or loss, where the economic characteristics and risks of the embedded derivatives are dissimilar to those of the host contracts and modify the contractual cash flows, such that they are not solely payments of principal and interest on the principal amount outstanding or the interest rate does not reflect only consideration for the time value of money and credit risk.

# Chapter 5 Measurement

Initial measurement (same as IAS 39)

- At initial recognition, an entity shall measure a financial asset or financial liabilities at
  - its fair value plus or minus,
  - in the case of a financial asset or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. (para. 5.1.1)
- When an entity uses settlement date accounting for an asset that is subsequently measured at amortised cost,
  - the asset is recognised initially at its fair value on the trade date (see para. B3.1.3–B3.1.6). (para. 5.1.2)



# Chapter 5 Measurement

## Subsequent Measurement of Financial Assets

- After initial recognition, an entity shall measure financial assets in accordance with para. 4.1.1 –4.1.5 (as discussed above) at
  - **fair value** or
  - **amortised cost**. (para. 5.2.1)
- An entity shall apply the impairment requirements of IAS 39 to all financial assets measured at amortised cost. (para. 5.2.2)
  - No impairment requirements on financial assets measured at fair value
- An entity shall apply the hedge accounting requirements of IAS 39 to a financial asset that is designated as a hedged item. (para. 5.2.3)

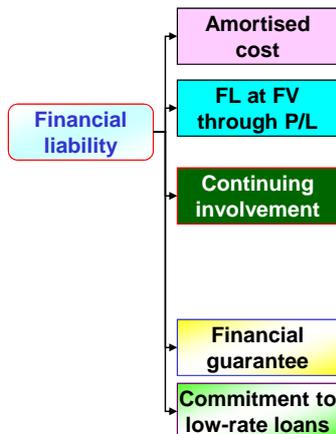
Amortised cost

Fair value

# Chapter 5 Measurement

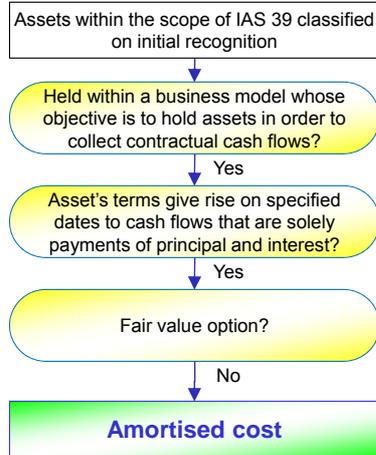
Same as IAS 39

## Subsequent Measurement of Financial Liabilities



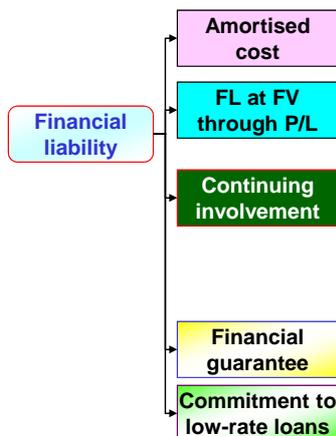
- After initial recognition, an entity shall measure a financial liability in accordance with para. 4.2.1–4.2.2.
- An entity shall apply the hedge accounting requirements of IAS 39 to a financial liability that is designated as a hedged item. (para. 5.3.2)

## Chapter 5.7 Gains and Losses



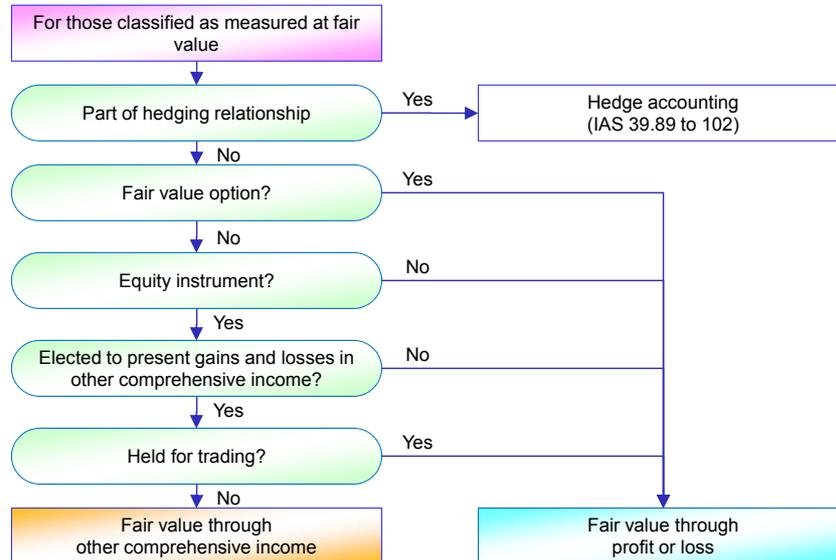
- A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship
  - shall be recognised in profit or loss
    - when the financial asset is derecognised, impaired or reclassified, and through the amortisation process. (para. 5.7.2)

## Chapter 5.7 Gains and Losses



- A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship
  - shall be recognised in profit or loss
    - when the financial liability is derecognised and through the amortisation process. (para. 5.7.2)

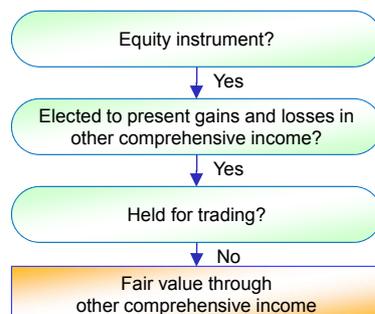
## Chapter 5.7 Gains and Losses



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## Chapter 5.7 Gains and Losses



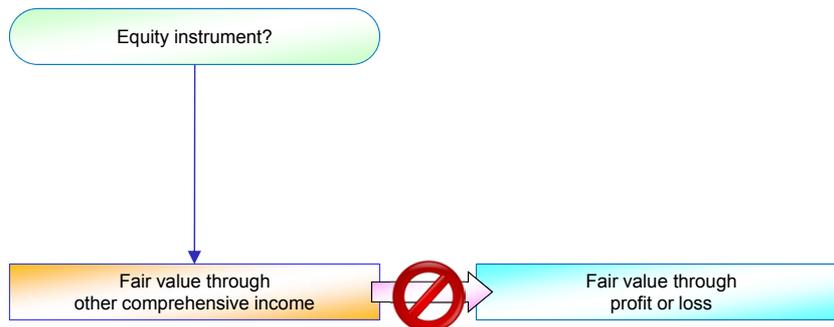
- Such irrevocable election (presenting fair value changes in other comprehensive income)
  - is made on an instrument-by-instrument (ie share-by-share) basis.
- Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss.
  - However, the entity may transfer the cumulative gain or loss within equity (e.g.. transfer between reserves).
- Dividends on such investments are recognised in profit or loss in accordance with IAS 18 Revenue
  - unless the dividend clearly represents a recovery of part of the cost of the investment. (para. B5.7.1)

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## Chapter 5.7 Gains and Losses

- Under IFRS 9, amount presented in other comprehensive income shall not be subsequently transferred to profit or loss
  - Implies that
    - no recycling of any fair value change on those financial assets measured at fair value through other comprehensive income to profit or loss (or income statement)
    - no gain or loss will be recognised in profit or loss (or income statement) on derecognition of such investments in equity instruments



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## Chapter 5.7 Gains and Losses

### Case



Financial statements 2009 states that:

- For financial assets extant at 31 December 2009
  - Financial assets measured at **fair value through profit or loss**
    - Financial assets under this category are investments carried at fair value.
      - Unrealised gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise.
      - Upon disposal, the differences between the net sale proceeds and the carrying values are included in profit or loss.
    - Interest income is recognised using the effective interest method and included in net realised and unrealised gains/(losses) and interest income from these financial assets.
    - Dividend income is recognised when the right to receive a dividend is established and is disclosed separately as dividend income.

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# Chapter 5.7 Gains and Losses

## Case



Financial statements 2009 states that:

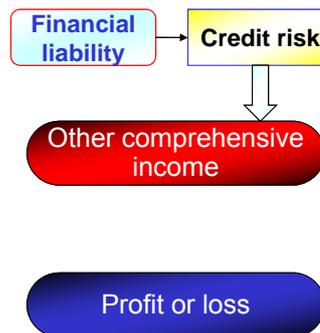
- For financial assets extant at 31 December 2009
  - Financial assets measured at **amortised cost**
    - Financial assets under this category are carried at amortised cost using the effective interest method less provision for impairment.
      - Gains and losses arising from disposal, being the differences between the net sale proceeds and the carrying values, are recognised in profit or loss.
    - Interest income is recognised using the effective interest method and disclosed as interest income.

# Chapter 5.7 Gains and Losses

- An entity shall present a gain or loss on a financial liability designated as at fair value through profit or loss as follows:
  - a. The amount of change in the fair value of the financial liability that is attributable to **changes in the credit risk** of that liability shall be presented in other comprehensive income (see para. B5.7.13–B5.7.20), and
  - b. the remaining amount of change in the fair value of the liability shall be presented in profit or loss

unless

- the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in profit or loss (in which case paragraph 5.7.8 applies). (para. 5.7.7)



In that case, an entity shall present all gains or losses on that liability in profit or loss. (para. 5.7.8)

## Chapter 7 Effective Date & Transition

### Effective date

- An entity shall apply IFRS 9 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- However, if an entity elects to apply IFRS 9 early and has not already applied IFRS 9 issued in 2009, it must apply all of the requirements in IFRS 9 at the same time (but see also para. 7.3.2).
- If an entity applies IFRS 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 IFRSs). (para. 7.1.1)



## Plan of IASB in 2011 .....



## Plan of IASB in 2011 .....

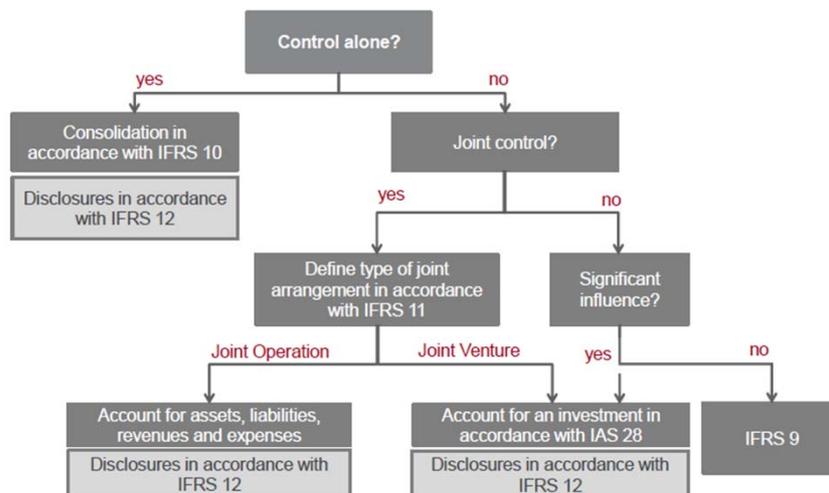
**On 12 May 2011**

- The IASB issued 4 new IFRS .....
  - IFRS 10 *Consolidated Financial Statements*
  - IFRS 11 *Joint Arrangements*
  - IFRS 12 *Disclosure of Interests in Other Entities*
  - IFRS 13 *Fair Value Measurement*



## Plan of IASB in 2011 .....

**Interaction between IFRS 10, 11 and 12 and IAS 28**



## Plan of IASB in 2011 .....

### Target New and Amended IFRS in 2011

- 2011 Second Quarter
  - Amended IFRS 1
  - Amended IAS 19
- 2011 Third Quarter
  - New parts for IFRS 9 for impairment, hedge accounting, and asset and liabilities offsetting
- 2011 Fourth Quarter
  - New IFRS on Leases
  - New IFRS on Revenue Recognition
  - New IFRS on Insurance Contract



## IFRS and HKFRS Update and Challenge

1 June 2011



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# IFRS and HKFRS Update and Challenge

1 June 2011



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