Latest Development of IFRS (and HKFRS)

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Effective for 2010 Dec. Year-End

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
• HKFRS 1 (Revised) *First-time Adoption of HKFRS*	➢ 1 Jul. 2009
• Amendments to HKFRS 1 *Additional Exemptions for First-time Adopters*	➢ 1 Jan. 2010
• Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*	➢ 1 Jan. 2010
• HKAS 27 (Revised) *Consolidated and Separate Financial Statements*	➢ 1 Jul. 2009
• HKFRS 3 (Revised) *Business Combination*	➢ 1 Jul. 2009
• Amendments to HKAS 39 *Eligible Hedged Items*	➢ 1 Jul. 2009
• HK(IFRIC) 17 *Distributions of Non-cash Assets to Owners*	➢ 1 Jul. 2009
• HK(IFRIC) 19 *Extinguishing Financial Liabilities with Equity Instruments*	➢ 1 Jul. 2010
• Annual Improvements to HKFRSs 2009	➢ 1 Jan. 2010 & e
• *HKFRS for Private Entities (or IFRS for SME)*	➢ Effective upon issue
• Amendments to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*	➢ Not specified
• HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	➢ Immediate effect

Effective for 2011 Dec. Year-End

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
Amendments to HKAS 32 *Classification of Rights Issues*	1 Feb.2010
HKAS 24(Revised) *Related Party Disclosures*	1 Jan. 2011
Amendments to HK(IFRIC) 14 *HKAS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	1 Jan. 2011
Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*	1 Jul. 2010
Annual Improvements to HKFRSs 2010	1 Jan. 2011 (unless specified)

- AB 4 *Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance*

Effective after 2011 Dec. Year-End

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*	1 Jul. 2011
Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards—Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 Jul. 2011
Amendments of HKAS 12 *Deferred Tax: Recovery of Underlying Assets*	1 Jan. 2012
HKFRS 9 *Financial Instruments (with additions of financial liabilities in 2010)*	1 Jan. 2013

Consolidated Financial Statements

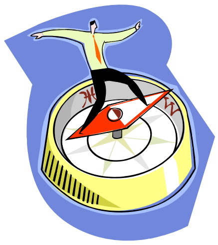
(IAS 27 Revised in 2008)

Consolidation Procedures

- Consolidation procedures are similar to previous standard, but ……
- Minority interests renamed as "non-controlling interests", which
  - is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

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)
      - ➢ no gain or loss on disposal of interests in subsidiary can be recognised in profit or loss if the subsidiary is still a subsidiary.



New Practice on 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;

New Practice on 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.

New Practice on 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.

New Practice on Loss of Control

Example

Think about 2 different cases with similar figures:

HK$	Sub. A	Sub. B
Sale proceeds	100	100
Carrying amount of the subsidiary's net assets in consolidated financial statements	100	100

Anything recognised in profit or loss?

What is the further information you have to ask?

New Practice on Loss of Control

Example

What if ……

similar figures:

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

Anything recognised in profit or loss?

New Practice on Loss of Control

Example

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

– The subsidiary has available-for-sale financial assets

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

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

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

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

New Practice on Loss of Control

Example

What if ……

similar figures:

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

Revaluation reserves relating to available-for-sale reclassified to profit or loss

Revaluation reserves relating to PPE transferred directly to retained earnings

Business Combinations

(IFRS 3 Revised in 2008)

Introduction – Key Changes

Scope

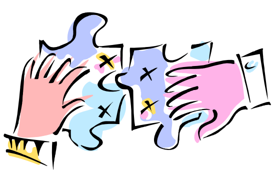
⇩

Method of accounting

⇩

Application of the method

- 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

Scope

⇩

Method of accounting

⇩

Application of the 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

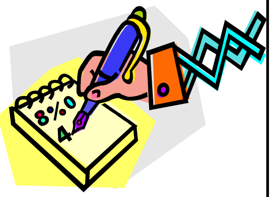
- Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Application of the method

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

The Acquisition Method

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



- To qualify for recognition as part of applying the acquisition method,
  - the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* at the acquisition date.
- 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
Non-controlling interest ($100 × 25%) (at its proportionate share of Entity A's identifiable net assets)	25

The Acquisition Method

Example

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

The Acquisition Method

Critical Amendment

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

Application of the method

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

Practices changed

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

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)	
Goodwill ($120 - $75)	45

The Acquisition Method

Example

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

$(120 + 25) – $100
= $45

The Acquisition Method

Example

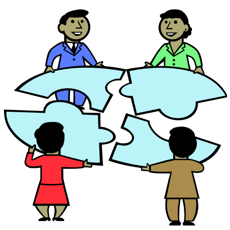
Existing Methodology	HK$	New Methodology HK$		HK$	
Fair value of identifiable net assets of Entity A	100	100		100	b
Purchase 75% interest in Entity A (consideration is $120)	120	120		120	a(i)
Parent's interest – 75% of fair value of identifiable net assets ($100 × 75%)	75		$120 ÷ 75% = $160		
Non-controlling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

$(120 + 40) – $100 = $60

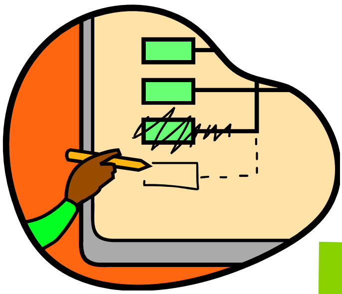
The Acquisition Method

- 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)



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 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 characteri... f land is t...

- 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.

...ngs are considered ... ments is ... ents ... finite ... ase unl... is ... n acc... pe... leas...

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

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

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

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Amendments to IAS 17

Case

Financial Statements 2009

香港交易所 HKEx

- 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.

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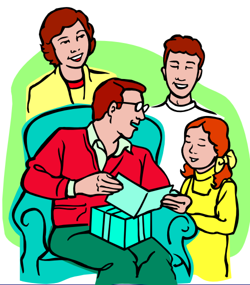
Related Party Disclosures
(IAS 24)

Key Amendments

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

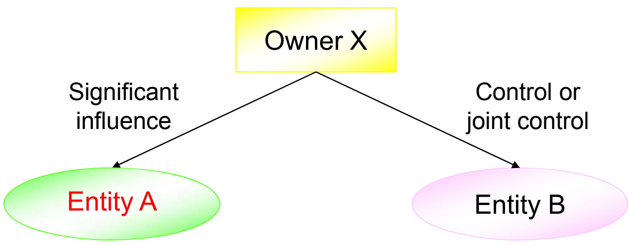


Definition of a Related Party – Key Changes

- 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 HKFRS 12 Deferred Tax)

Introduction

- HKAS 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 HKAS 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 HKAS 16

Recovery of Underlying Asset

- If a deferred tax liability or asset arises from investment property that is measured using the **fair value model** in HKAS 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**. (HKAS 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 HKAS 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.

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)*~~

7 ~~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
- HKFRS 9 was issued to maintain international convergence with the issuance of IFRS 9.

Background

- The three main phases of the project to replace HKAS 39 are:
  a) Phase 1: Classification and measurement of financial assets and financial liabilities.
  b) Phase 2: Impairment methodology.
  c) Phase 3: Hedge accounting.
- HKFRS 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 on 25 Nov. 2010 in HK

Chapter 1 and 2

Objective

- The objective of HKFRS 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 HKFRS 9 to all assets within the scope of HKAS 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.

  Same as before

- When an entity first recognises a financial asset, it shall
  - **classify** it in accordance with paragraphs 4.1.1-4.1.5 and

    Amended (Ch. 4 of HKFRS 9)
  - **measure** it in accordance with paragraph 5.1.1 and 5.1.2.

    Amended (Ch. 5 of HKFRS 9)
- When an entity first recognises a financial liability, it shall
  - **classify** it in accordance with paragraphs 4.2.1 and 4.2.2 and

    Similar to HKAS 39
  - **measure** it in accordance with paragraph 5.1.1. (para. 3.1.1)

    Same para. as financial assets

Chapter 4.1 Classification of FA

- Unless para. 4.1.5 of HKFRS 9 (so-called "fair value option") applies, an entity shall classify financial assets as subsequently measured at either
  - amortised cost or
  - fair value

  on the basis of both:

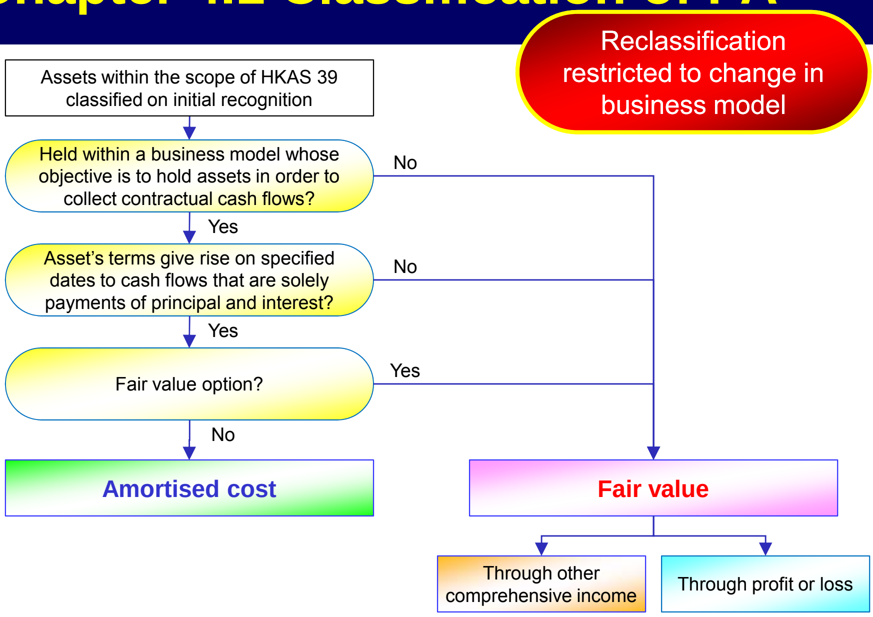
  a) the entity's business model for managing the financial assets; and

  b) the contractual cash flow characteristics of the financial asset.
  (para. 4.1.1)

Amortised cost

Fair value

Chapter 4.1 Classification of FA



Chapter 5 Measurement

Initial measurement (same as HKAS 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)

Initial Measurement
Fair Value
+
Transaction Cost

- 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

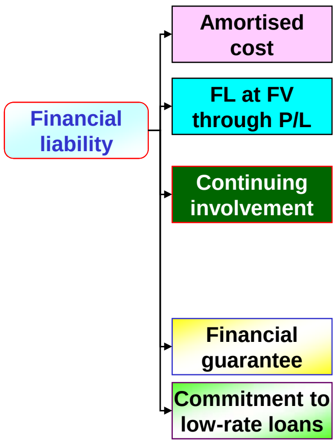
Subsequent Measurement of Financial Assets

- 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 HKAS 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 HKAS 39 to a financial asset that is designated as a hedged item. (para. 5.2.3)

Amortised cost | **Fair value**

Chapter 5 Measurement

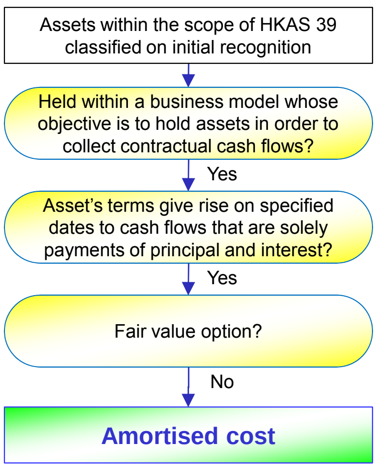
Same as HKAS 39



Subsequent Measurement of Financial Liabilities

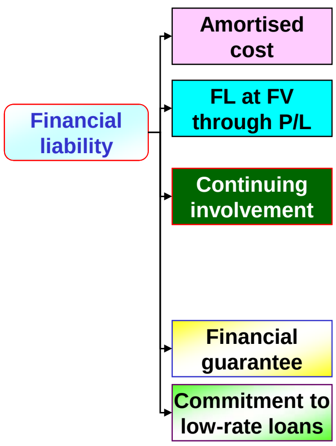
- After initial recognition, an entity shall measure a financial liability in accordance with para. 4.2.1–4.2.2.
- An entity shall apply the hedge accounting requirements of HKAS 39 to a financial liability that is designated as a hedged item. (para. 5.3.2)

Chapter 5.7 Gains and Losses



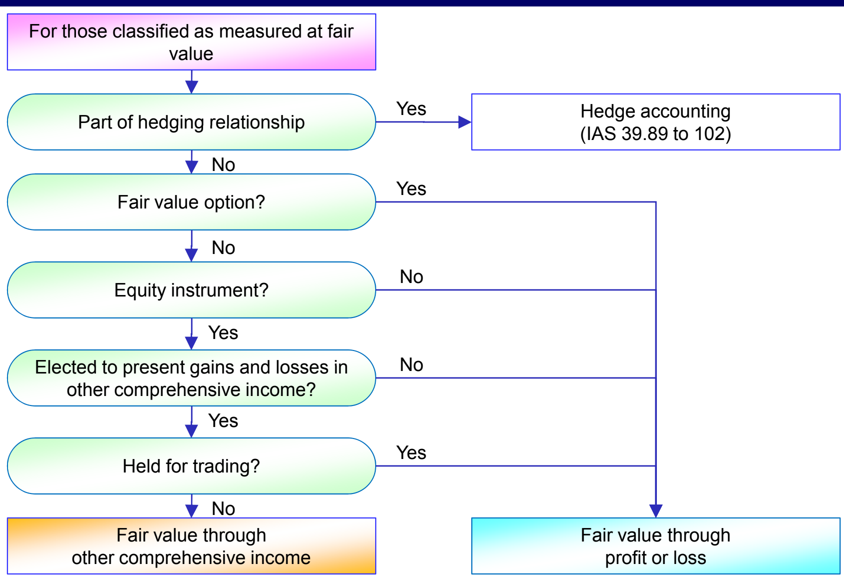
- A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship
  - shall be recognised in profit or loss
    - when the financial asset is derecognised, impaired or reclassified, and through the amortisation process. (para. 5.7.2)

Chapter 5.7 Gains and Losses

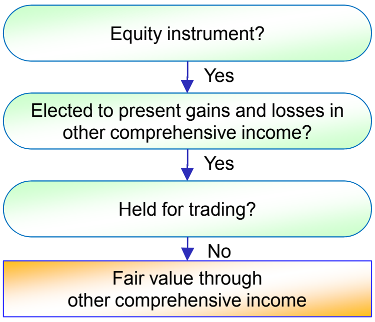


- A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship
  - shall be recognised in profit or loss
    - when the financial liability is derecognised and through the amortisation process. (para. 5.7.2)

Chapter 5.7 Gains and Losses



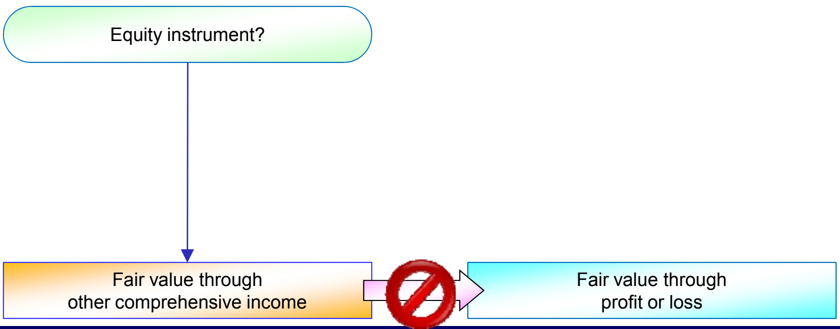
Chapter 5.7 Gains and Losses



- Such irrevocable election (presenting fair value changes in other comprehensive income)
  - is <u>made on an instrument-by-instrument (ie share-by-share) basis</u>.
- Amounts presented in other comprehensive income <u>shall not be subsequently transferred to profit or loss</u>.
  - 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 HKAS 18 Revenue
  - unless the dividend clearly represents a recovery of part of the cost of the investment. (para. B5.7.1)

Chapter 5.7 Gains and Losses

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



Chapter 7 Effective Date & Transition

Effective date

- An entity shall apply HKFRS 9 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- However, if an entity elects to apply HKFRS 9 early and has not already applied HKFRS 9 issued in 2009, it must apply all of the requirements in HKFRS 9 at the same time (but see also para. 7.3.2).
- If an entity applies HKFRS 9 in its financial statements for a period beginning before 1 January 2013,
  - it shall disclose that fact and at the same time apply the amendments in Appendix C (i.e. Amendments to other HKFRSs). (para. 7.1.1)

Latest Development of IFRS (and HKFRS)

10 January 2011

Full set of slides in PDF can be found in
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