

Update of HK Accounting Standards

15 October 2013



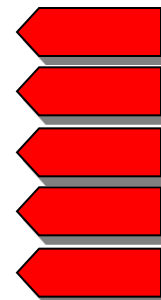
LAM Chi Yuen Nelson 林智遠
MBA MSc BBA ACA ACS CFA CPA(U.S.) CTA FCCA
FCPA FCPA(Aust.) FHKIoD FTIHK MHKSI MSCA

Effective for 2013 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- HKFRS 10 *Consolidated Financial Statements* ➤ 1 Jan. 2013
- HKFRS 11 *Joint Arrangements* ➤ 1 Jan. 2013
- HKFRS 12 *Disclosure of Interests in Other Entities* ➤ 1 Jan. 2013
- HKFRS 13 *Fair Value Measurement* ➤ 1 Jan. 2013
- HKAS 1 (revised) *Presentation of Items of OCI* ➤ 1 Jul. 2012
- HKAS 19 (revised) *Employee Benefits* ➤ 1 Jan. 2013
- HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine* ➤ 1 Jan. 2013
- Amendments to HKFRS 7 *Financial Instruments: Disclosures – Disclosures - Offsetting Financial Assets and Financial Liabilities* ➤ 1 Jan. 2013
- Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* ➤ 1 Jan. 2013
- Annual Improvements 2009-2011 Cycle ➤ 1 Jan. 2013
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ➤ 1 Jan. 2013

Effective for periods beginning on/after



Effective after 2013 Dec. Year-End

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- HKFRS 9 *Financial Instruments* ➤ 1 Jan. 2015
- Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* ➤ 1 Jan. 2014
- Amendments to HKFRS 9 *Financial Instruments* and HKFRS 7 – *Mandatory Effective Date of HKFRS 9 and Transition Disclosures* ➤ 1 Jan. 2015
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *Investment Entities* ➤ 1 Jan. 2014
- Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets (Impairment of Assets)* ➤ 1 Jan. 2014
- HK(IFRIC) – Int 21 *Levies* ➤ 1 Jan. 2014
- Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* ➤ 1 Jan. 2014



Today's Agenda



Update of Amendments to HKFRS
effective for 2013/14

Update of Amendments to HKFRS/IFRS
effective after y.e. 31 December 2013

Today's Agenda



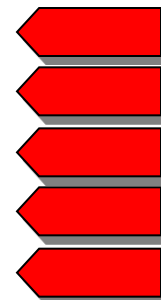
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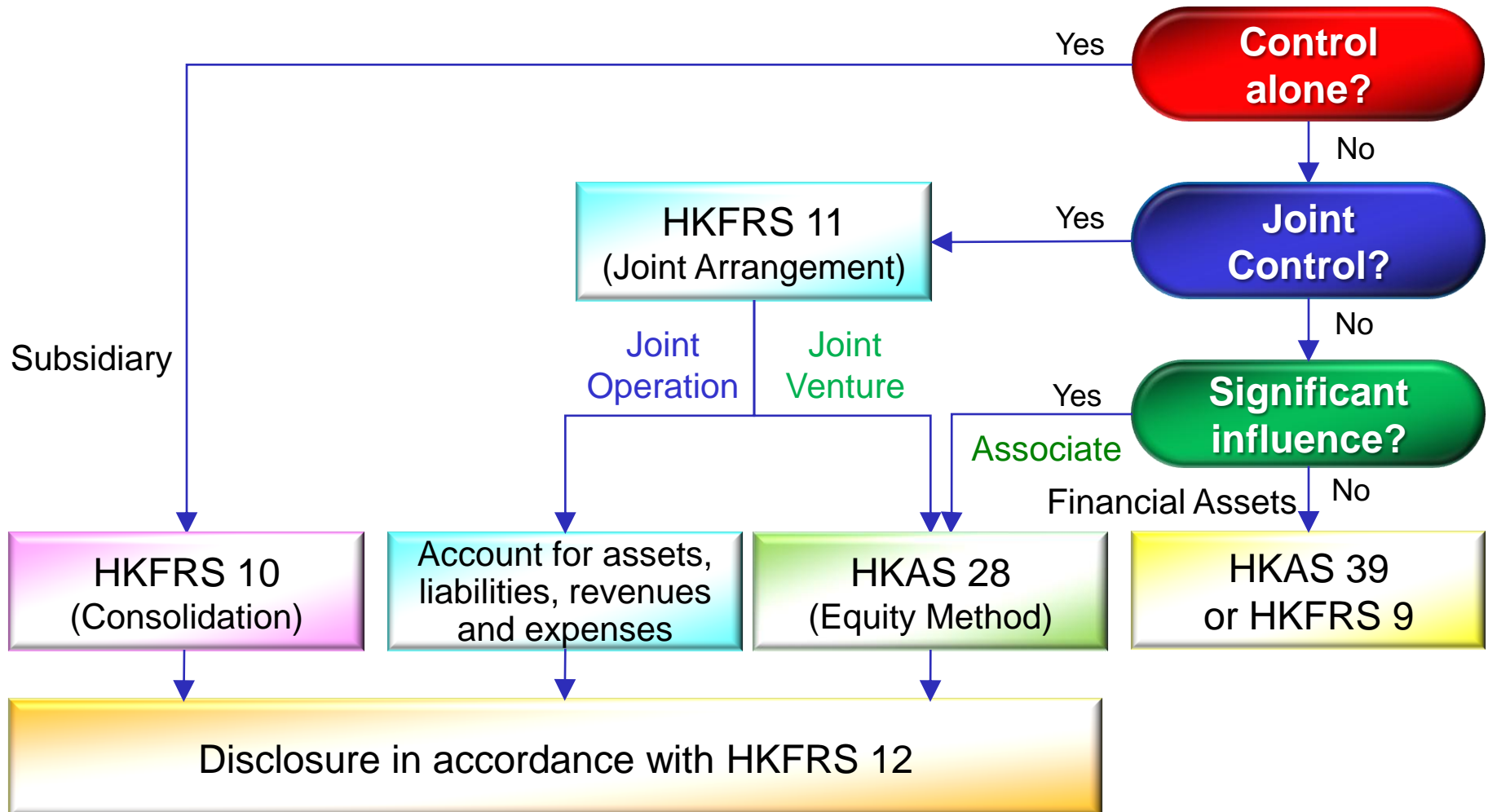
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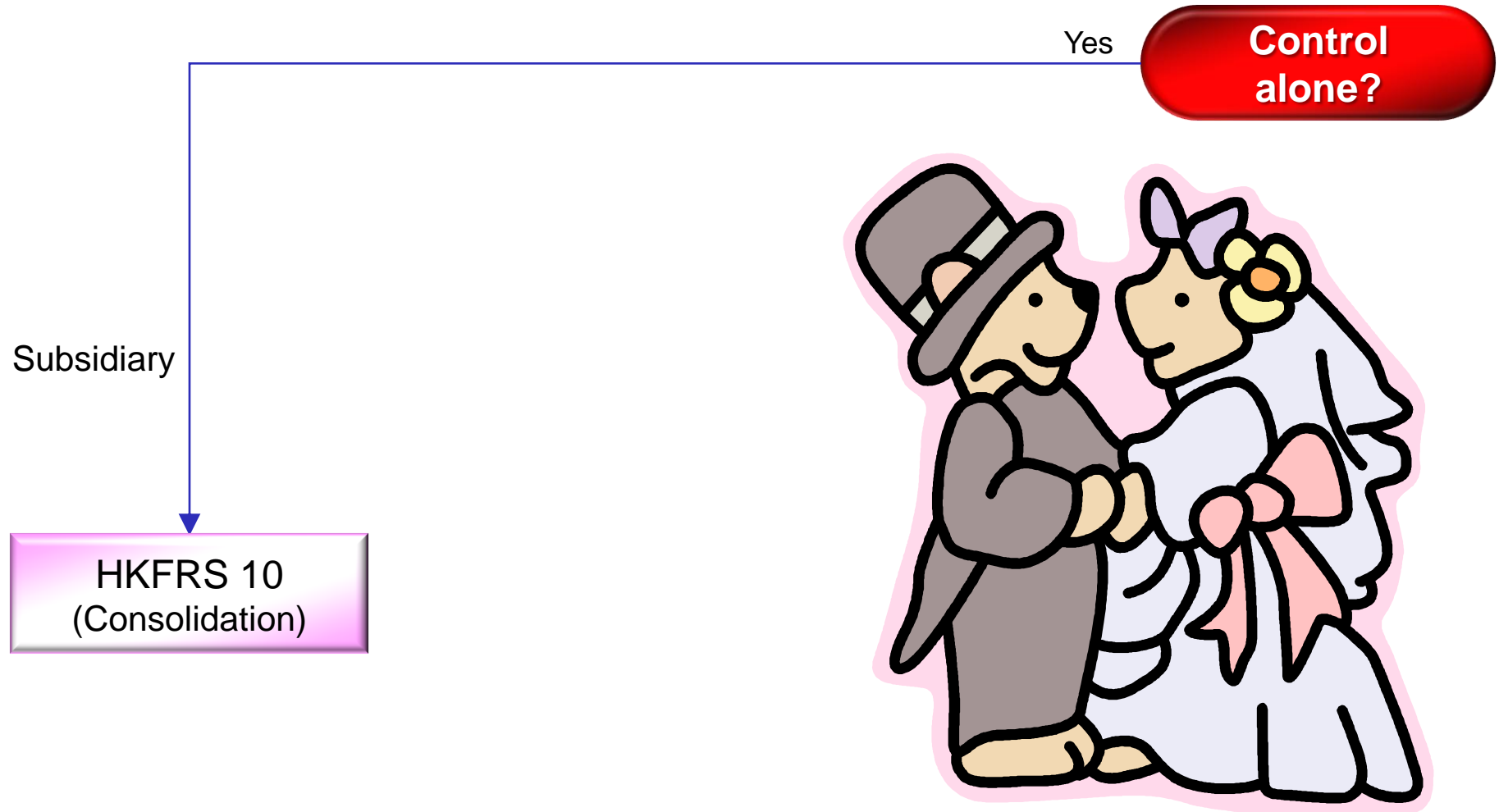
HKFRS 10, 11 and 12

Interaction between HKFRS 10, 11 & 12, & HKAS 28 & 39 (or HKFRS 9)



Consolidated Financial Statements

(HKFRS 10)



HKFRS 10 Consol. Financial Statements

- While HKFRS 10 become effective,
 - HKAS 27 becomes “separate financial statements”
- Indicator still refers to “**control**” but
- An investor, regardless of the nature of its involvement with an entity (the investee),
 - shall determine whether it is a parent by assessing whether it controls the investee. (HKFRS 10.5)
- An investor controls an investee when
 - it is exposed, or has rights, to variable returns from its involvement with the investee and
 - has the ability to affect those returns through its power over the investee. (HKFRS 10.6)



Control

- Thus, an investor controls an investee if and only if the investor has all the following:
 - a. power over the investee;
 - b. exposure, or rights, to variable returns from its involvement with the investee; and
 - c. the ability to use its power over the investee to affect the amount of the investor's returns (HKFRS 10.7)

Power is defined as “existing rights that give the current ability to direct the relevant activities”

relevant activities are “activities of the investee that significantly affect the investee's returns”

Rights include

- voting rights, potential voting rights, proportionate voting rights, substantive rights, removal rights, decision-making rights, protective rights, contractual rights



Control

- An investor shall consider all facts and circumstances when assessing whether it controls an investee.
 - The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed as above. (HKFRS 10.8)
- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities,
 - i.e. the activities that significantly affect the investee's returns (HKFRS 10.10)

Power

Existing Rights

Current Ability

relevant activities

Control

Example

- An investor acquires 48% of the voting rights of an investee.
- The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights.
- None of the shareholders has any arrangements to consult any of the others or make collective decisions.
- When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48% interest would be sufficient to give it control.
- In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power. (HKFRS 10 Example 4)

Power

Existing Rights




Voting Rights



Control

Case

 Cheung Kong (Holdings) Limited

Group Structure (as at 10.9.2013)



HKFRS 10: Real Case

Case



Cheung Kong (Holdings) Limited

- 公司重新分類 影響入帳方式
(《經濟日報》《三十七計》楊青峰 2012.04.18)
 - 根據長實的財務報表附錄二，長實間接擁有和黃已發行普通股股權的 **49.9%**，故分類和黃為長實的聯營公司 ... 根據《香港會計準則27》通常指那些被母公司持有**50%**以上表決權的公司，這另一公司就是母公司的附屬公司，母公司是要把所有附屬公司的財務報告，逐項逐項合併入母公司的綜合財務報告（**consolidated financial statements**）內。
 - 可是，由於《香港財務報告準則10》將於明年開始生效，代替大部分原《香港會計準則27》的要求，母公司不可再單純以擁有一間公司**50%**以上的表決權，去決定這間公司是受母公司「控制」。故此，長實雖然並沒有擁有和黃**50%**以上的表決權，但分析員普遍估計和黃有可能被當為受長實的「控制」，而和黃亦可能被重新分類為長實的附屬公司（**subsidiary**）。

HKFRS 10: Real Case

Case

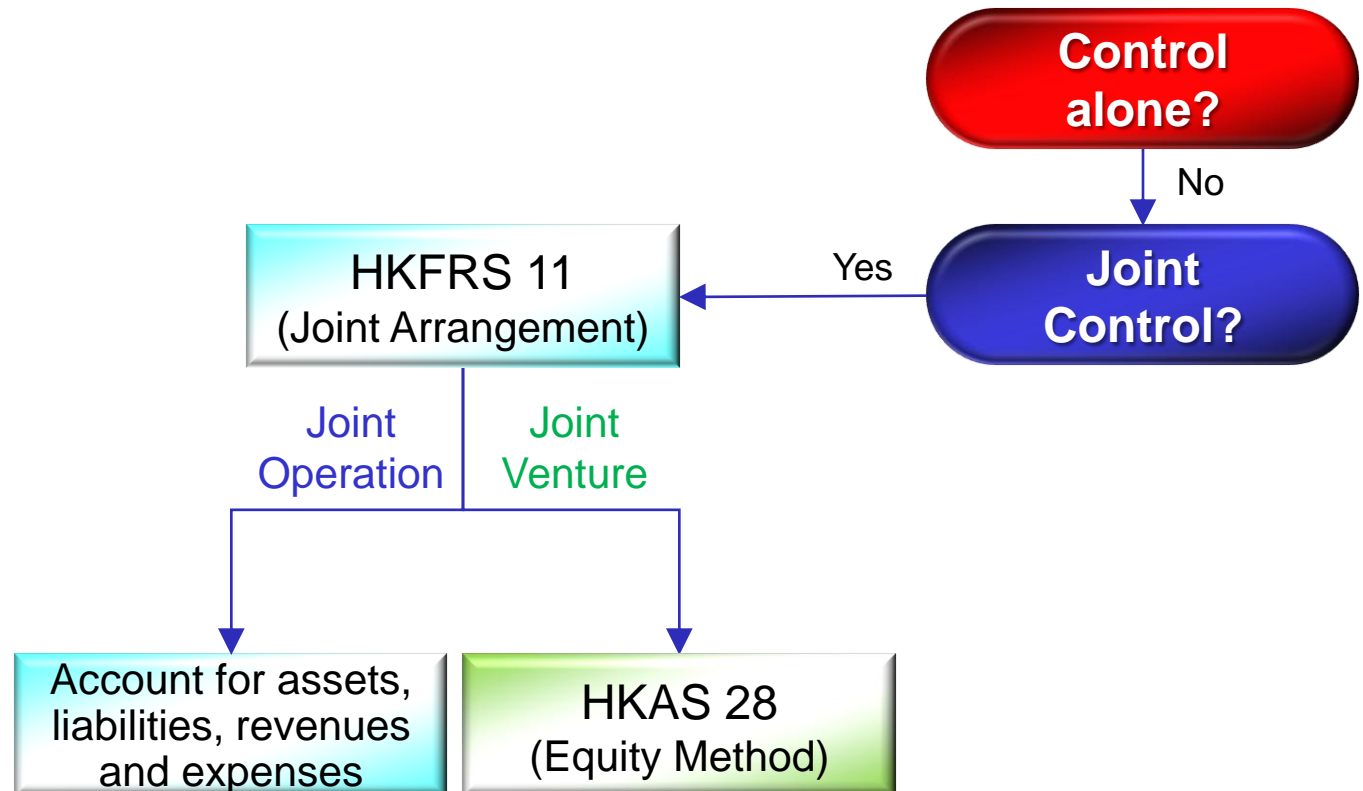


Cheung Kong (Holdings) Limited

- 公司重新分類 影響入帳方式
(《經濟日報》《三十七計》楊青峰 2012.04.18)
 - 假設長實不能把和黃分類為聯營公司，要重新分類和黃為附屬公司，結果就如分析員的估計一樣，和黃的負債要全面併入長實的綜合財務報表。2011年底，長實的總負債是589億港元，和黃的總負債是3,218億港元，綜合財務狀況表的總負債將上升五倍以上。

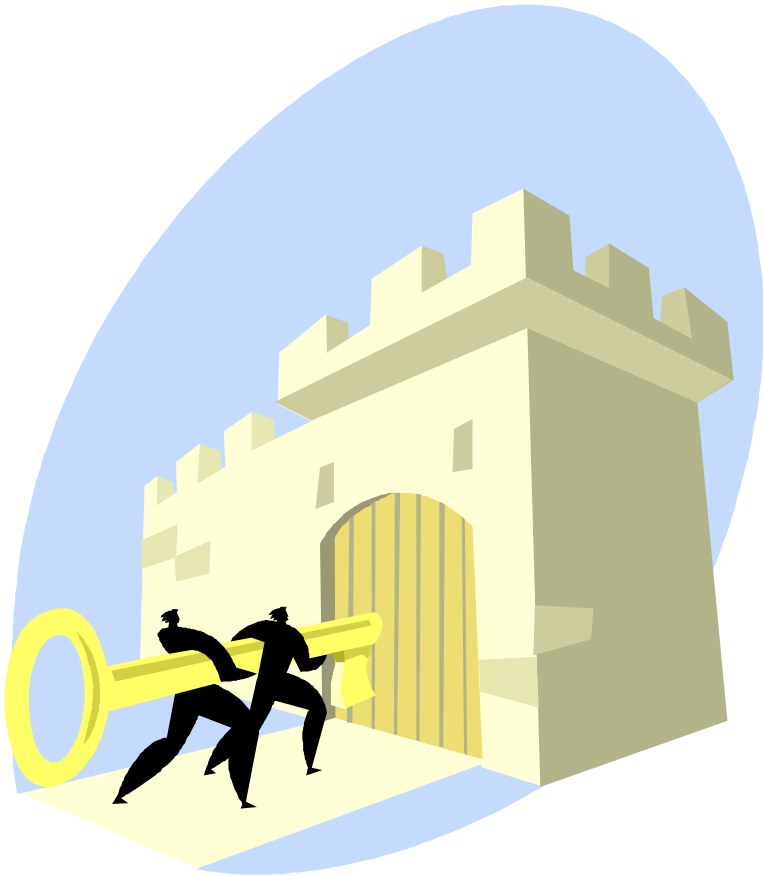
HKFRS 10, 11 and 12

Interaction between HKFRS 10, 11 & 12, & HKAS 28 & 39 (or HKFRS 9)



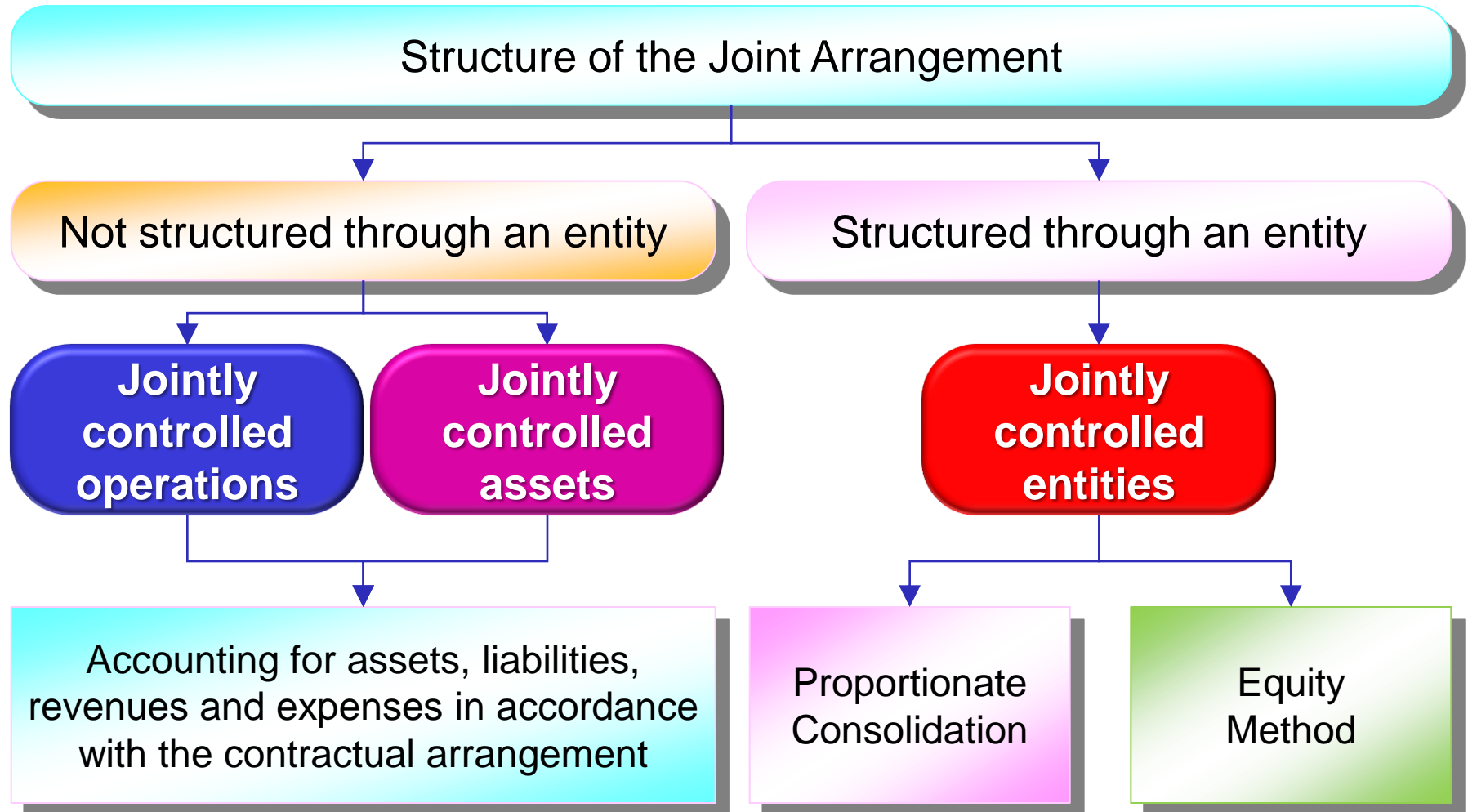
Joint Arrangements

(HKFRS 11)



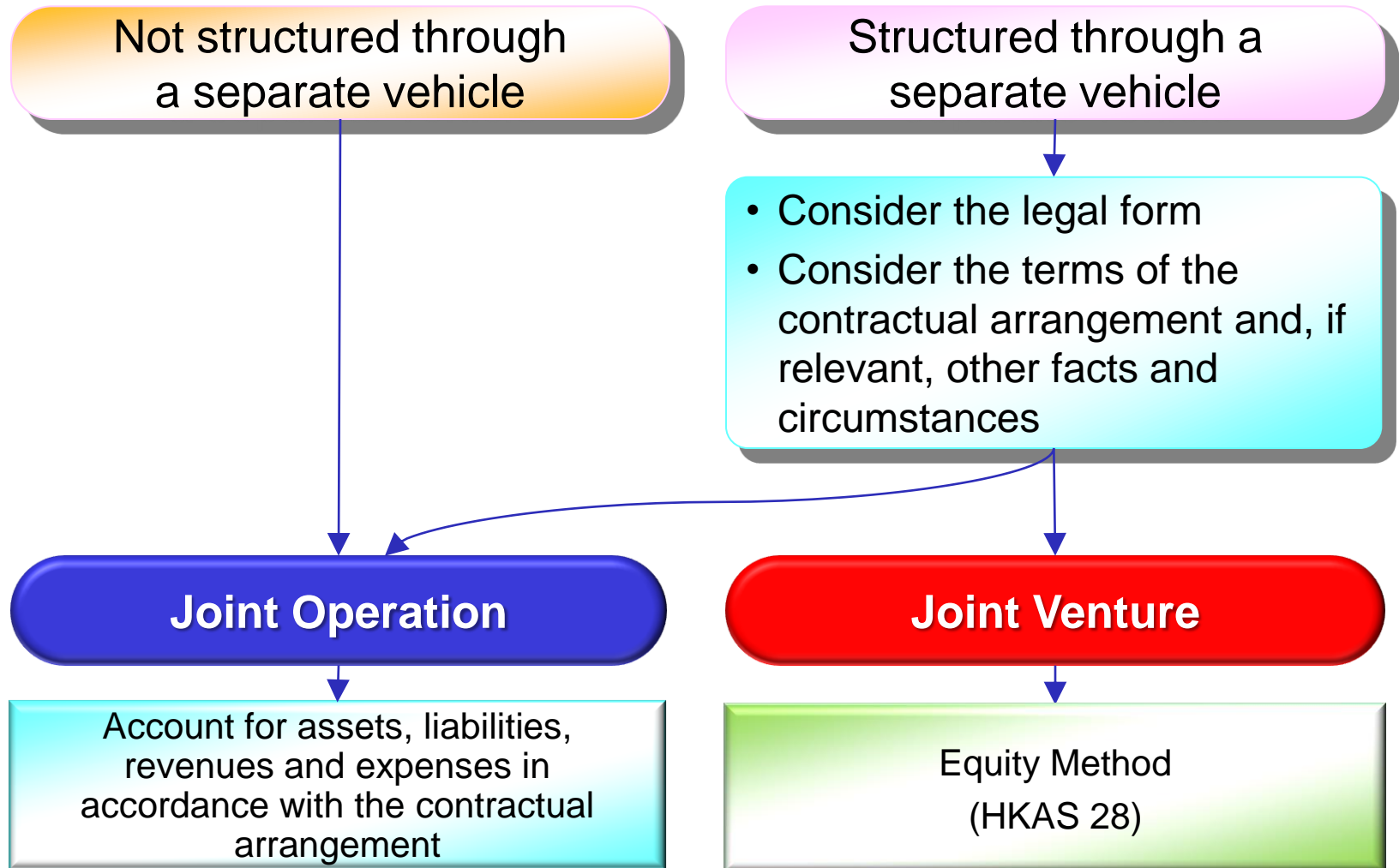
HKFRS 11 Joint Arrangements

Previously in HKAS 31



HKFRS 11 Joint Arrangements

Introduced and amended in HKFRS 11



HKFRS 11 Joint Arrangements

- Joint Arrangement,

- a new name to subrogate joint venture, simultaneously, joint venture has another meaning now
- is defined to be an arrangement of which two or more parties have joint control.
- has the following characteristics:
 - a. The parties are bound by a contractual arrangement.
 - b. The contractual arrangement gives two or more of those parties joint control of the arrangement.
(HKFRS 11.4-5)

Joint control is defined as

- the contractually agreed sharing of control of an arrangement,
- which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.



HKFRS 11 Joint Arrangements

Joint Operation

A joint operation is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Those parties are called joint operators (HKFRS 11.15).

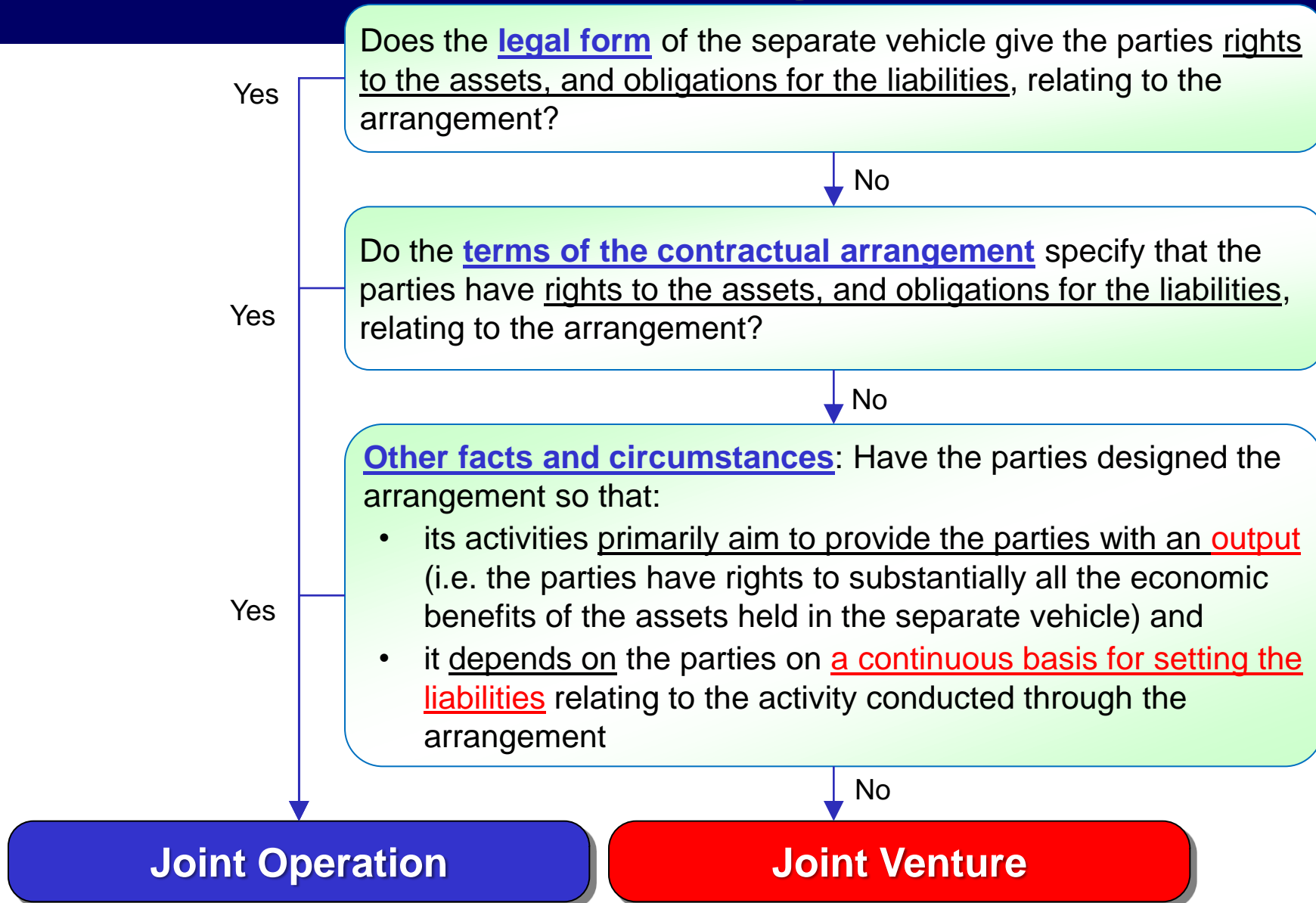
Joint Venture

A joint venture is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Those parties are called joint venturers (HKFRS 11.16).

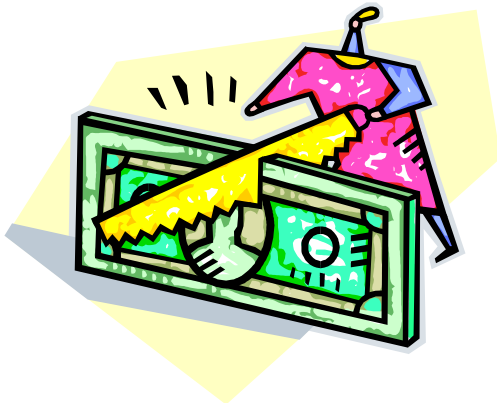
HKFRS 11 Joint Arrangements



HKFRS 11 Joint Arrangements

Joint Operation

- A joint operator shall recognise in relation to its interest in a joint operation:
 - a. its assets, including its share of any assets held jointly;
 - b. its liabilities, including its share of any liabilities incurred jointly;
 - c. its revenue from the sale of its share of the output arising from the joint operation;
 - d. its share of the revenue from the sale of the output by the joint operation; and
 - e. its expenses, including its share of any expenses incurred jointly. (HKFRS 11.20)



HKFRS 11 Joint Arrangements

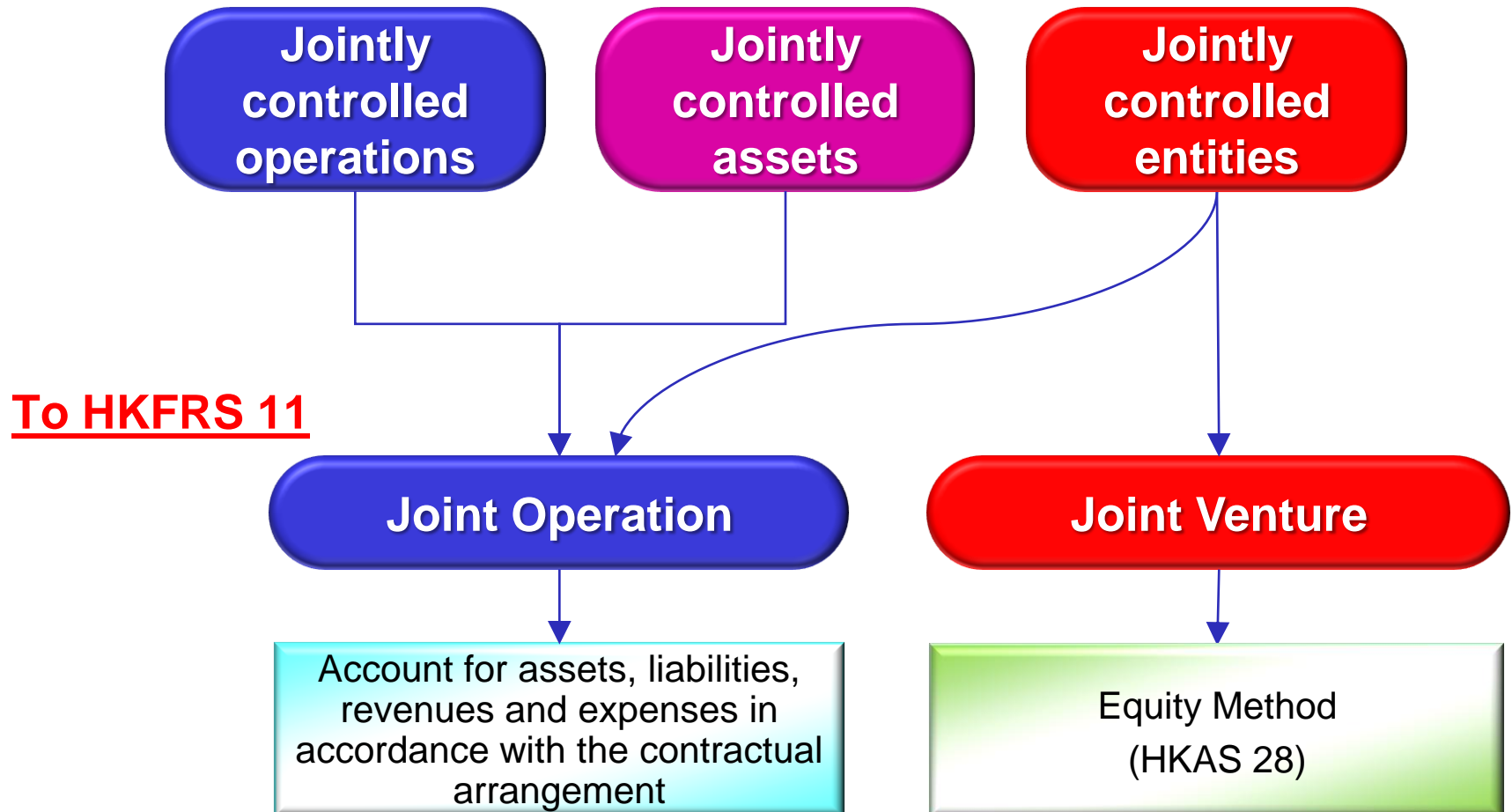


Joint Venture

- A joint venturer
 - shall recognise its interest in a joint venture as an investment and
 - shall account for that investment using the equity method in accordance with HKAS 28 *Investments in Associates and Joint Ventures*
 - unless the entity is exempted from applying the equity method as specified in HKAS 28 (HKFRS 11.24).
- HKAS 28 is renamed as “Investments in Associates and Joint Ventures”

HKFRS 11: Implication

From HKAS 31



Fair Value Measurement

(HKFRS 13)



**新會計制度
如哈哈鏡照毒資產**



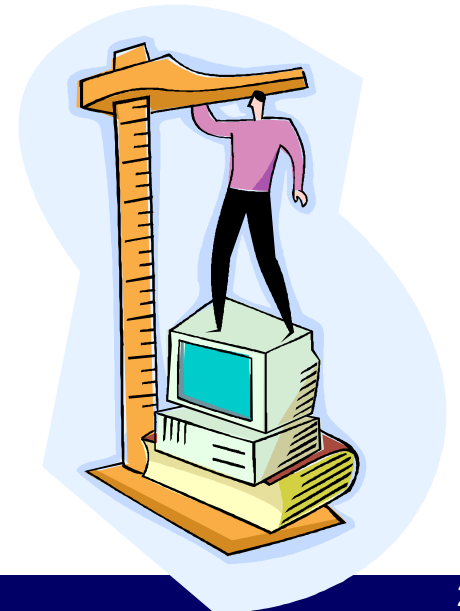
1. Introduction

- HKFRS 13 is a single standard to address the measurement fair value used in many other HKFRSs:
 - a. defines fair value;
 - b. sets out in a single HKFRS a framework for measuring fair value; and
 - c. requires disclosures about fair value measurements. (HKFRS 13.1)

Definition of
Fair Value

Single Framework for
FV Measurement

Disclosure



2. Definition of Fair Value

- Fair value is defined in HKFRS 13 as
 - the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (HKFRS 13.9)
 - i.e. an exit price
 - It is a market-based measurement, not an entity-specific measurement
- Historically, fair value is normally defined as:
 - The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Definition of
Fair Value

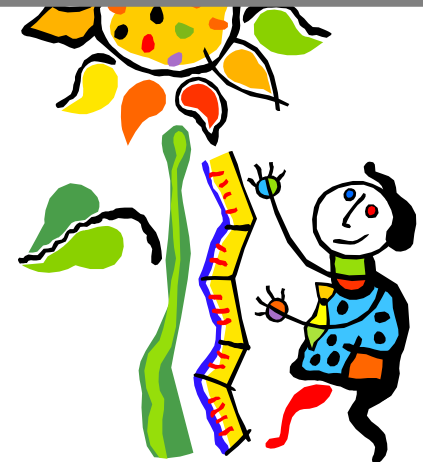


2. Definition of Fair Value

The IASB considered the previous definition of fair value:

- a. did not specify whether an entity is buying or selling the asset;
- b. was unclear about what is meant by settling a liability because it did not refer to the creditor, but to knowledgeable, willing parties; and
- c. did not state explicitly whether the exchange or settlement takes place at the measurement date or at some other date (HKFRS 13.BC30)

- Historically, fair value is normally defined as:
 - The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.



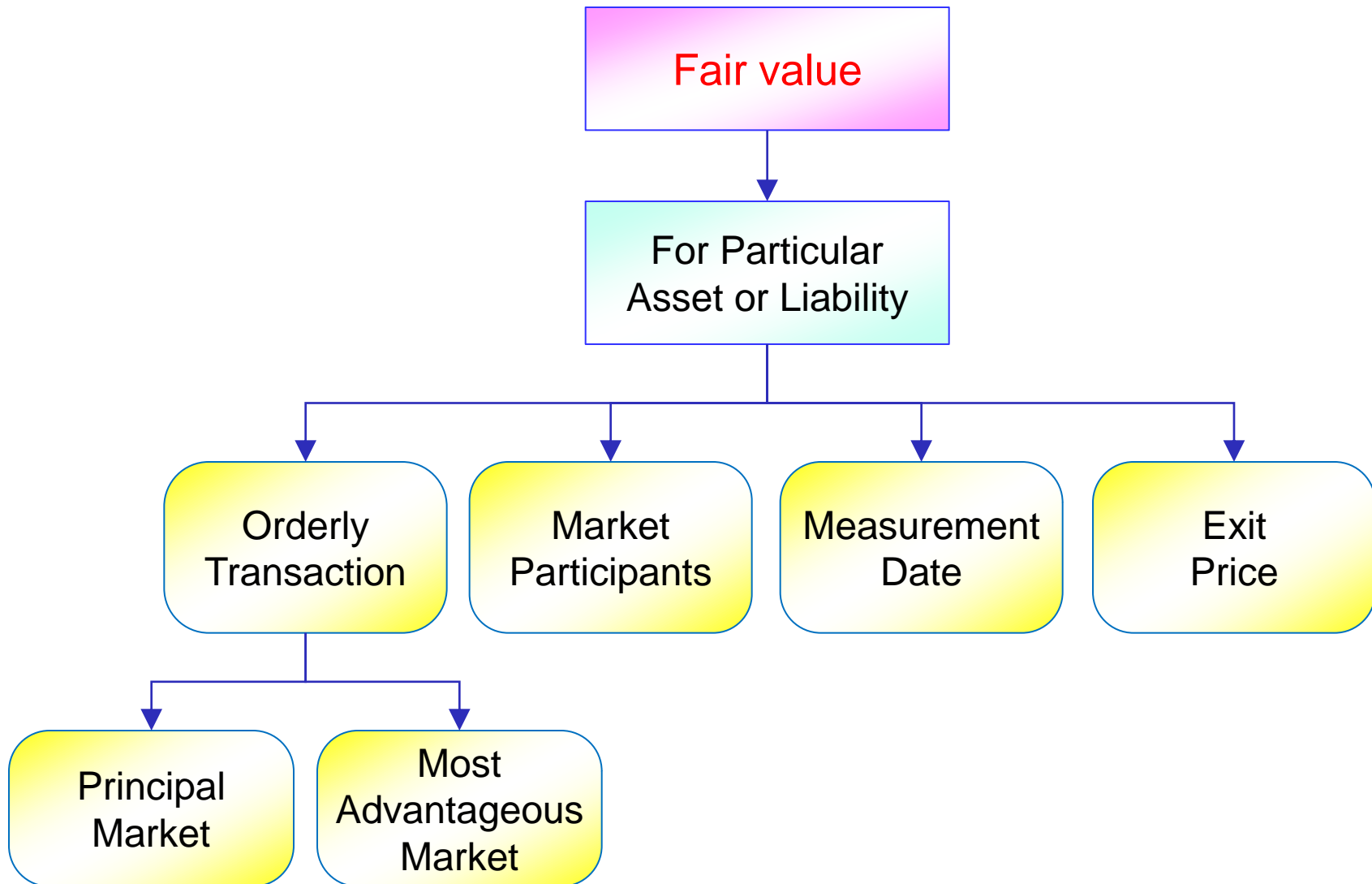
3. Fair Value Measurement

- HKFRS 13 explains that a fair value measurement requires an entity to determine the following:
 - a. the particular asset or liability being measured;
 - b. for a non-financial asset, the highest and best use of the asset and whether the asset is used
 - in combination with other assets or
 - on a stand-alone basis;
 - c. the market in which an orderly transaction would take place for the asset or liability; and
 - d. the appropriate valuation technique(s) to use when measuring fair value.
 - The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs.
 - Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability. (HKFRS 13.IN10)

Single Framework for
FV Measurement

Fair Value Hierarchy
(3 levels)

3. Fair Value Measurement



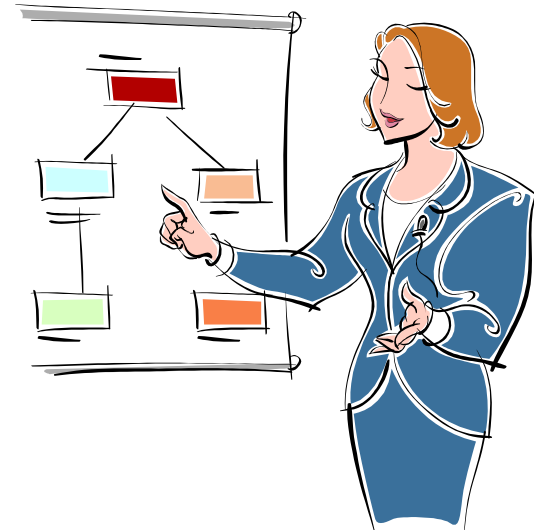
Presentation of Financial Statements

(HKAS 1 Revised)



Presentation of Financial Statements

- In June 2011, the IASB further amended IAS 1 for annual periods beginning on or after 1 July 2012 in order to
 - Distinguish different items of other comprehensive income, and
 - Align with the accounting practices in US.
- The presentation of other comprehensive income in IFRS and accounting practices in US will be aligned.
- HKICPA issued the same amendment in July 2011.



Presentation of Financial Statements

- The main amendment of HKAS 1 requires an entity to
 - Classify line items for amounts of other comprehensive income (OCI) in a period by nature,
 - Group and present them in accordance with other HKFRSs into:
 1. Those items of OCI that will not be reclassified subsequently to P/L; and
 2. Those items of OCI that will be reclassified subsequently to P/L when specific conditions are met (HKAS 1.82A).

**OCI not
reclassified**

**OCI may be
reclassified**

Presentation of Financial Statements

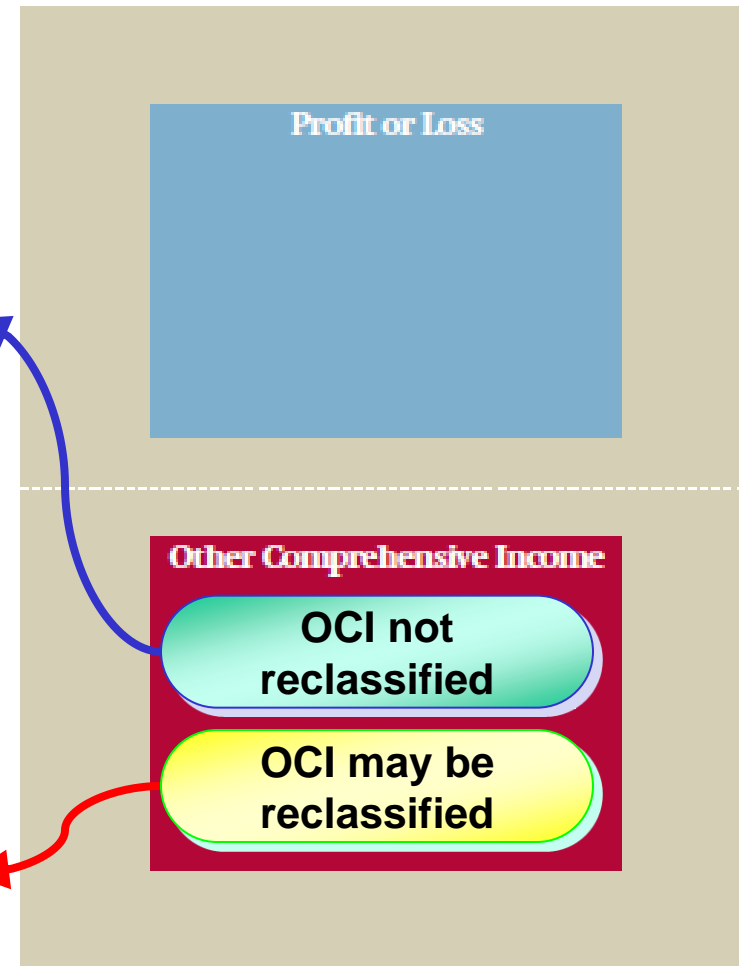
Those items of OCI that will not be reclassified subsequently to P/L include:

- Changes in revaluation surplus of PPE recognised under HKAS 16;
- Changes in revaluation surplus of intangible assets under HKAS 38;
- Actuarial gains and losses on defined benefit plans under HKAS 19; and
- FV changes of investment in equity instrument recognised in OCI under HKFRS 9.

Those items of OCI that may be reclassified subsequently to P/L include:

- Translation reserves under HKAS 21;
- FV changes on available-for-sale financial assets under HKAS 39; and
- Cash flow hedge reserves under HKAS 39.

Amended presentation requirements



Presentation of Financial Statements

- In addition to the main amendment, HKAS 1 is also amended and updated with the following points:
 1. A new statement title, statement of profit or loss and other comprehensive income, is introduced and it can be used to distinguish from statement of comprehensive income which may be used to present comprehensive income only (HKAS 1.10 revised in 2011);
 2. Similar to the above title, another new statement title, statement of profit or loss, is also introduced to formally replace income statement, or separate income statement, to present items of profit or loss only (HKAS 1.10A);
 3. Components of other comprehensive income is formally described as items of other comprehensive income; and
 4. A term, i.e. comprehensive income, is formally introduced and represents the total of profit or loss and other comprehensive income (HKAS 1.81A).

Today's Agenda



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effective after y.e. 31 December 2013

Effective after 2013 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

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Financial Instruments

(HKFRS 9)

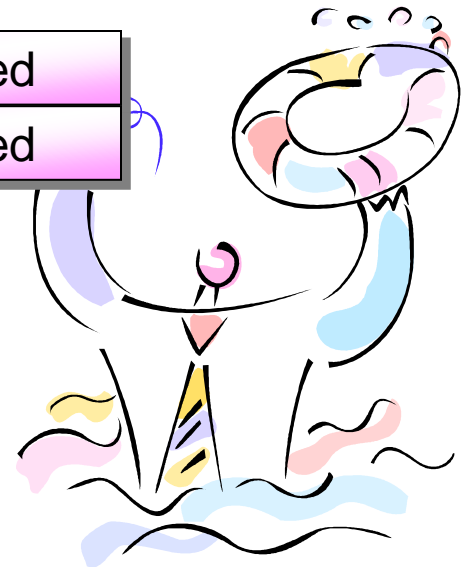
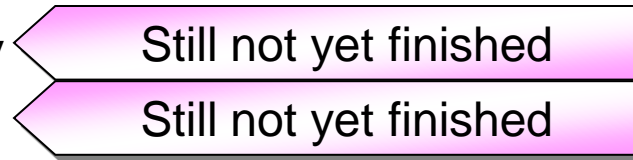


Chapters

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

Background

- In response 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
- The three main phases of the project to replace IAS 39 are:
 - Phase 1: Classification and measurement of financial assets and financial liabilities
 - Phase 2: Impairment methodology
 - Phase 3: Hedge accounting
- HKFRS 9 was issued to maintain international convergence with the issuance of IFRS 9
 - so far only includes the chapters relating to Phase 1 (classification and measurement of financial assets and financial liabilities)



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 HKFRS 9)

Amended
(Ch. 5 of HKFRS 9)

Similar to
HKAS 39

Same para. as
financial assets

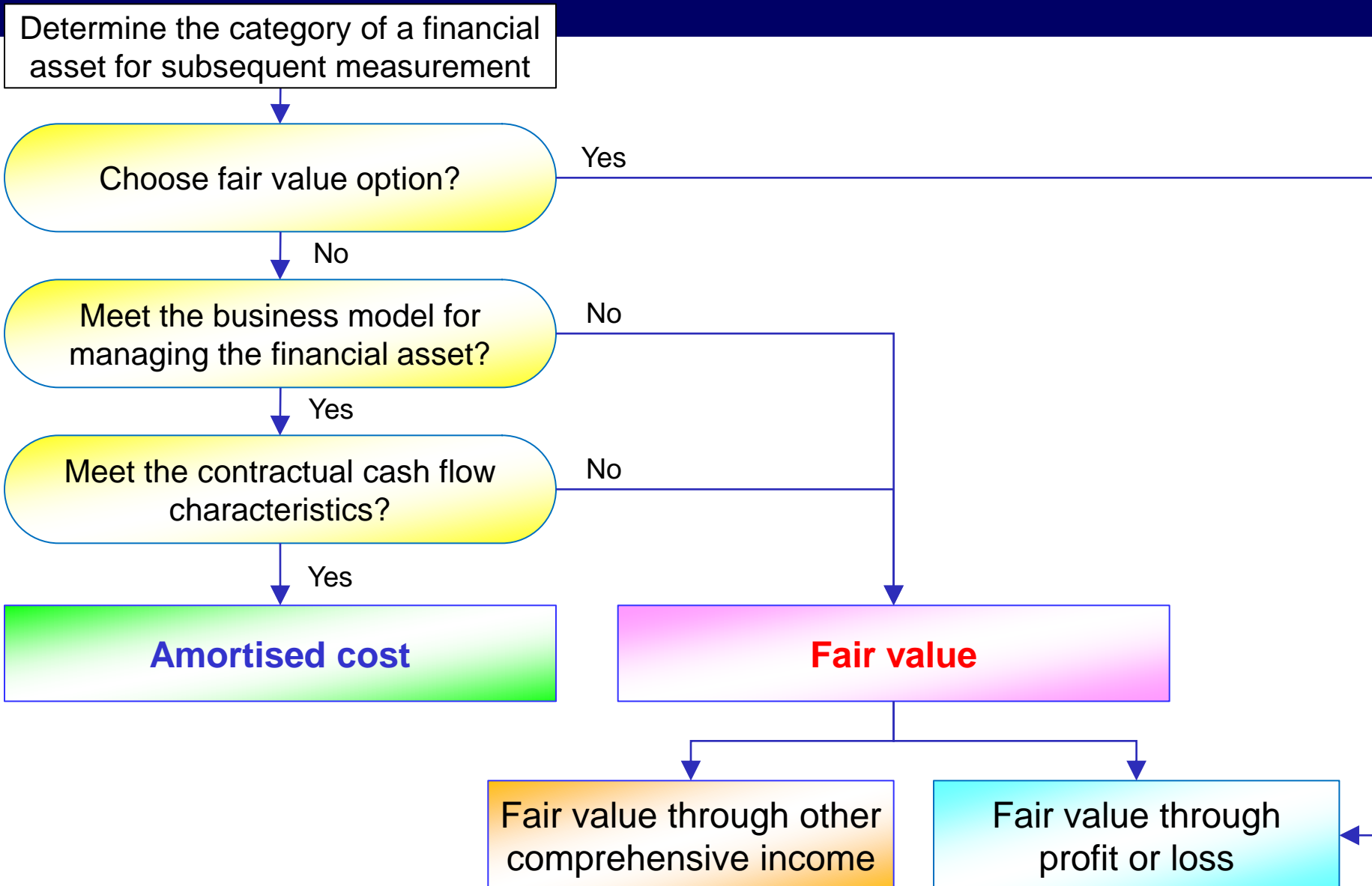
Chapter 4.1 Classification of FA

- 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)

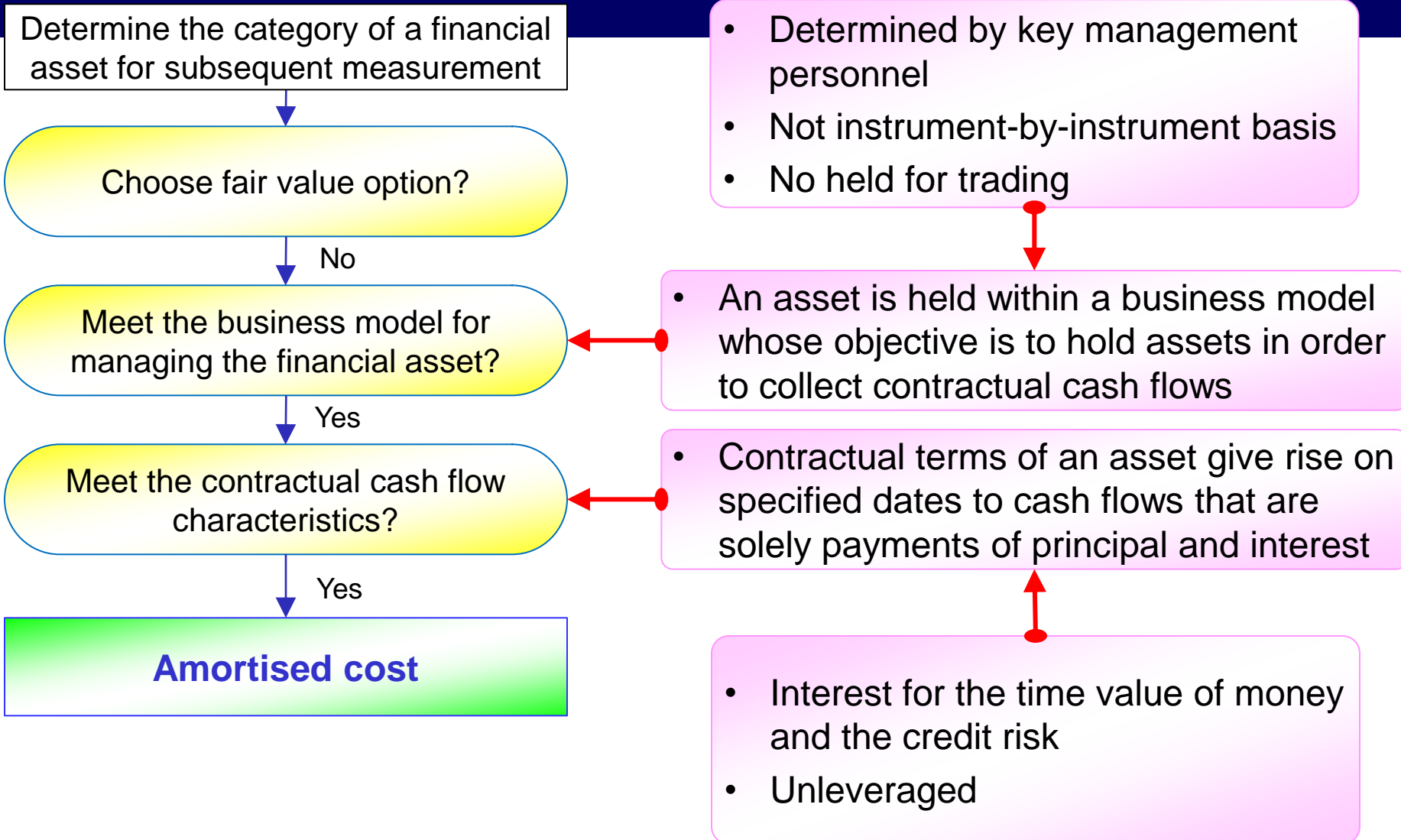
Amortised cost

Fair value

Chapter 4.1 Classification of FA



Chapter 4.1 Classification of FA



Chapter 5 Measurement

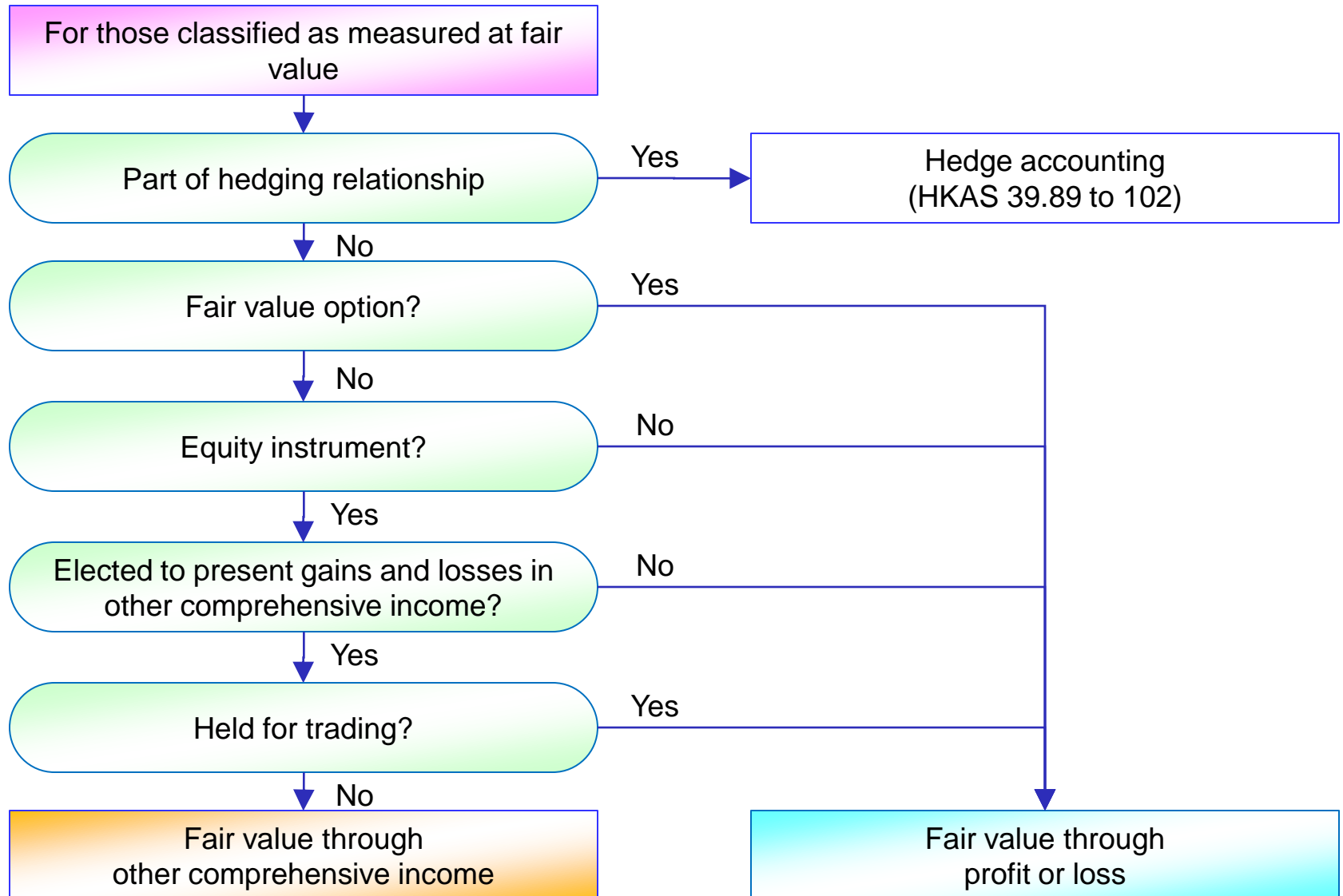
Subsequent Measurement of Financial Assets

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

Amortised cost

Fair value

Chapter 5.7 Gains and Losses



Chapter 7 Effective Date & Transition

Effective date

- An entity shall apply HKFRS 9 for annual periods beginning on or after 1 January 2015.
- Earlier application is permitted.

Amendments to HKFRS 9 Financial Instruments defer its mandatory effective date from 1 January 2013 to 1 January 2015.

The deferral will make it possible for all phases of the project to have the same mandatory effective date.



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15 October 2013



LAM Chi Yuen Nelson 林智遠

nelson@nelsoncpa.com.hk

www.NelsonCPA.com.hk

[www.Facebook.com/NelsonCPA](https://www.facebook.com/NelsonCPA)

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nelson@nelsoncpa.com.hk

www.NelsonCPA.com.hk

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