



2012 Update to Joint Declaration (8 July 2013)

As reported in the last update dated 10 April 2012, there were three standard differences between China Accounting Standards for Business Enterprises (CASBE) and Hong Kong Financial Reporting Standards (HKFRS), which relate to reversal of asset impairment, insurance contract acquisition costs and provision for safety fund. All of these differences are in the process of reconciliation, and it is noted that key projects currently in progress at the International Accounting Standards Board on *Conceptual Framework* and *Insurance Contracts* concern issues to which these differences relate.

In analyses of 'A' & 'H'-share company financial statements performed in recent years, a declining trend of differences in net income and net assets have been noted, which demonstrates the determination by the China Ministry of Finance (MoF) and the Institute to eliminate any reconciliation differences pursuant to the signing of the Joint Declaration of CASBE and HKFRS.

As reported in the Hong Kong Exchanges and Clearing Limited (HKEx)'s Financial Statements Review Programme Report 2012 and the Institute's Quality Assurance Department Annual Report 2012, 28 Hong Kong-listed Mainland companies have opted to appoint Mainland auditors and prepared their 2011 financial statements in accordance with CASBE since the amendments made to the HKEx Listing Rules in December 2010 (for the 2012 year-end, this had increased to 37). These financial statements were included in the respective financial statements review programmes of the Institute, the HKEx and the Hong Kong Financial Reporting Council. Both the HKEx and the Institute reported that there were no significant findings from the reviews.

The MoF is in the stage of updating CASBE and relevant Explanatory Guidance to take into account of new HKFRS which are effective for 2013 year-ends in order to maintain standard convergence between CASBE and HKFRS. In accordance with its due process, the MoF have issued eight exposure drafts in the last several months on which public comment has been invited. These standards and guidance are expected to be released later this year and the Institute understands that our comments made in respective exposure draft have been welcomed and considered for the preparation of this batch of pronouncement.

All parties are aware that CASBE is not identical to HKFRS/IFRS due to different standard setting policies and procedures. Furthermore, standard convergence is not static but an ongoing process. The Institute will continue to work with MoF on the ongoing convergence between CASBE and HKFRS.