



2009 Update to Joint Declaration (15 December 2009)

1. The HKICPA delegation ("the Institute") attended the 3rd Tripartite (MoF/IASB/the Institute) Meeting in Beijing on 13 October 2009 and conclusions are highlighted as follows:
2. *CASBE/IFRS Convergence Roadmap* – MoF has recently issued a Roadmap on its Convergence with IFRS. This indicated: -
 - (a) MoF's plan to adopt the new revised standards that were being developed for issue by IASB in response to the G20/FSB recommendations (financial instruments and fair value measurement); and
 - (b) MoF's plan to consolidate the various components of the China Accounting Standards (CASBE) into three main parts – the Basic Standard, Specific Standards (which will incorporate the current Implementation & Interpretation Guidance) and Implementation Guidance (which will incorporate the current Explanatory Guidance) – starting in 2011 and completing by 2011.

The Institute is very happy with these pronouncements which have adopted the recommendations the Institute had made.

3. *Status of CASBE/HKFRS Convergence* – As regards the current status of CASBE's convergence with HKFRSs, the Institute has looked at (a) those HKFRSs which became effective on 1 January 2009 and (b) HKFRSs which became effective on 1 July 2009; and (c) differences previously identified. The key issues are highlighted below: -
 - (a) HKFRS effective 1/1/09 (these will affect Mainland companies with December 09 year ends)

While some of these new/revised standards have been incorporated into CASBE by the release of CASBE Interpretation 3 in June 09, the Institute notes that there are quite a number of omissions; most of which relate to presentation and disclosures and would lead to standards difference in this respect. There are also some omissions that might lead to measurement/recognition differences.

MOF has indicated that it does not plan to issue further explanatory guidance to address these differences as it plans to deal with all convergence amendments (including these) in its CASBE consolidation exercise in 2010. It is felt that the issue of extra pronouncements in the interim will confuse the market – given that since June 09, the MoF has been focusing its attention on the various documents issued by the IASB to replace IAS 39 Financial Instruments arising from the G20/FSB recommendations.

The Institute has accepted this position because (i) from the outset, the Institute has adopted an "outcome based" approach which aim at identifying if any differences in the standards will result in material differences in the numbers presented in the A & H share financial statements; (ii) the Institute has consulted its technical advisory group, and came to the conclusion that the omission in the CASBE



would unlikely lead to material differences in the December 09 A & H share accounts due to the related transactions being currently rare in the Mainland; and (iii) the Institute also considered that the requirement to produce H share accounts using HKFRS/IFRS still applies for December 2009 financial statements.

The Institute will monitor the situation, specifically the CASBE consolidation exercise and the 09 A/H share financial statements comparisons, to ensure these issues are addressed before the December 2010 year end.

The Institute would also be bringing presentation/disclosure convergence in the exercise for future Tripartite Meetings in 2010 (the 4th meeting in April 2010).

(b) HKFRS effective 1/7/09 (these will affect Mainland Companies' first quarter result in March 2010)

MoF has agreed to issue a circular to enterprises to address the amendments in the first quarter of 2010. The Institute will monitor this as part of the convergence exercise.

(c) The 10 previously identified differences

The exercise to review the 10 differences identified up to the latest published Convergence Report for December 08 revealed the following: -

- (i) The two most significant differences: "Related party disclosures" and "Accounting for assets revaluation in corporate restructuring prior to IPO" will be eliminated on the issue of revised IAS24 (issued) and IFRS1 (under exposure). Both were achieved with significant involvement of HKICPA.
- (ii) The other GAAP difference on "reversal of asset impairment" still exists, but there is a joint study between MoF & IASB to resolve this that will follow the progress of the US FASB and IASB Convergence project. CASBE's requirement is more prudent in this regard.
- (iii) Two new pronouncements recently issued will create new GAAP differences: -
 - The MoF has reverted to their old treatment of the provision for safety fund due to industry pressure.
 - The issue of circular 117 will create a difference due to the use of bank lending rate instead of government bond rate for calculating defined benefits in retirement schemes (when there is no deep market in high-quality corporate bonds).

Discussions with MoF on these two issues are on-going.