Update No. 62

(Issued March 2009)

This Update relates to the issuance of:

- Amendments to HKFRS 7 *Financial Instruments: Disclosures*—Improving Disclosures about Financial Instruments
- Other consequential amendments.

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i to ii and replace with revised pages i to ii.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 7 *Financial Instruments: Disclosures* (Standard)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 39-45 after page 38.	Amendments to HKFRS 7—Note
HKFRS 7 *Financial Instruments: Disclosures* (Basis for Conclusions)	Replace page 3 with revised page 3. Insert pages 23-25 after page 22.	Amendments to HKFRS 7—Note
HKFRS 7 *Financial Instruments: Disclosures* (Implementation Guidance)	Replace page 2 with revised page 2. Insert pages 18-20 after page 17.	Amendments to HKFRS 7—Note
HKFRS 1 (Revised) *First-time Adoption of Hong Kong Financial Reporting Standards* (Standard)	Replace pages 9 and 23 with revised pages 9 and 23.	Editorial Changes
HKFRS 1 (Revised) *First-time Adoption of Hong Kong Financial Reporting Standards* (Implementation Guidance)	Replace pages 6 and 17 with revised pages 6 and 17.	Editorial Changes

Amendments to other HKFRSs

HKFRS 4 *Insurance Contracts* (Standard)	Replace cover page with revised cover page. Insert pager 39 after 38.	Amendments due to HKFRS 7—Note
HKFRS 4 *Insurance Contracts* (Implementation Guidance)	Insert pager 41 after page 40.	Amendments due to HKFRS 7—Note

Note:

Amendments to HKFRS 7 *Financial Instruments: Disclosures*–Improving Disclosures about Financial Instruments form part of the focused response to the financial crisis and addresses the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The improvements also reflect discussions on measuring and disclosing fair values of financial instruments when markets are no longer active.

The amendments to HKFRS 7 *Financial Instruments: Disclosures* introduce a three-level hierarchy for fair value measurement disclosures as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. This is aimed at ensuring that the information disclosed enables users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity manages that risk.

The amendments to HKFRS 7 apply for annual periods beginning on or after 1 January 2009. However, an entity will not be required to provide comparative disclosures in the first year of application.

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MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to March 2009)

HKFRS 7
Revised ~~December 2008~~March 2009

Effective for annual periods
beginning on or after 1 January 2007*

Hong Kong Financial Reporting Standard 7

Financial Instruments:

Disclosures

(a) The related amendments to HKAS 39 and HKFRS 7 on the *Reclassification of Financial Assets* are set out in Appendix F of this HKFRS 7 issued in October 2008. Appendix D also includes a further amendment, *Reclassification of Financial Assets—Effective Date and Transition* issued in December 2008, clarifying the effective date and transition requirements of those earlier amendments. An entity shall apply those amendments on or after 1 July 2008.

(b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.

(c) An entity shall apply amendments to HKFRS 7 on the *Improving Disclosures about Financial Instruments* issued in March 2009 for annual periods beginning on or after 1 January 2009.

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APPENDICES

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F **Amendments to HKAS 39 and HKFRS 7 *Reclassification of Financial Assets* (effective from 1 July 2008)**

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BASIS FOR CONCLUSIONS

IMPLEMENTATION GUIDANCE

Hong Kong Financial Reporting Standard 7 *Financial Instruments: Disclosures* (HKFRS 7) is set out in paragraphs 1-45 and Appendices A-D and F-G. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. HKFRS 7 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Appendix G

Amendments to HKFRS 7 *Improving Disclosures about Financial Instruments* (issued in March 2009) - effective for annual periods beginning on or after 1 January 2009

In the Introduction, paragraph IN5A is added.

Introduction

Main features of the HKFRS

IN5A Amendments to the HKFRS, issued in March 2009, require enhanced disclosures about fair value measurements and liquidity risk. These have been made to address application issues and provide useful information to users.

Paragraph 27 is amended (new text is underlined and deleted text is struck through). Paragraphs 27A and 27B are added.

Significance of financial instruments for financial position and performance

Other disclosures

Fair value

27 An entity shall disclose <u>for each class of financial instruments</u>~~:~~

~~(a)~~ the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. <u>If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.</u>

~~(b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71–AG79 of HKAS 39).~~

~~(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~

~~(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.~~

27A To make the disclosures required by paragraph 27B an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels defined in paragraph 27A.

(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented);

(ii) total gains or losses recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(d) the amount of total gains or losses for the period in (c)(i) above included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented).

(e) for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

An entity shall present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

Paragraph 39 is amended (new text is underlined and deleted text is struck through). Paragraph 44G is added.

Liquidity risk

39 An entity shall disclose:

(a) a maturity analysis for <u>non-derivative</u> financial liabilities <u>(including issued financial guarantee contracts)</u> that shows the remaining contractual maturities<u>.</u>~~; and~~

<u>(b)</u> <u>a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).</u>

~~(b)~~<u>(c)</u> a description of how it manages the liquidity risk inherent in (a) <u>and (b)</u>.

Effective date and transition

44G *Improving Disclosures about Financial Instruments* (Amendments to HKFRS 7), issued in March 2009, amended paragraphs 27, 39 and B11 and added paragraphs 27A, 27B, B10A and B11A–B11F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Appendix A
Defined terms

The following term is amended: new text is underlined.

liquidity risk The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Appendix B
Application guidance

A heading and paragraph B11 are amended (new text is underlined and deleted text is struck through). Paragraphs B10A and B11A–B11F are added and paragraphs B12–B16 are deleted. Paragraphs B12 and B13 are replaced by paragraph B11C(a) and (b). Paragraphs B14 and B16 are replaced by paragraph B11D.

Nature and extent of risks arising from financial instruments (paragraphs 31–42)

~~Contractual maturity analysis~~ Quantitative liquidity risk disclosures (paragraphs 34(a) and 39(a) and (b))

B10A In accordance with paragraph 34(a) an entity discloses summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. An entity shall explain how those data are determined. If the outflows of cash (or another financial asset) included in those data could either:

(a) occur significantly earlier than indicated in the data, or

(b) be for significantly different amounts from those indicated in the data (eg for a derivative that is included in the data on a net settlement basis but for which the counterparty has the option to require gross settlement),

the entity shall state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk unless that information is included in the contractual maturity analyses required by paragraph 39(a) or (b).

B11 In preparing the ~~contractual~~ maturity analyses ~~analysis for financial liabilities~~ required by paragraph 39(a) and (b) an entity uses its judgement to determine an appropriate number of time bands. For example, an entity might determine that the following time bands are appropriate:

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

B11A In complying with paragraph 39(a) and (b), an entity shall not separate an embedded derivative from a hybrid (combined) financial instrument. For such an instrument, an entity shall apply paragraph 39(a).

B11B Paragraph 39(b) requires an entity to disclose a quantitative maturity analysis for derivative financial liabilities that shows remaining contractual maturities if the contractual maturities are essential for an understanding of the timing of the cash flows. For example, this would be the case for:

(a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability.

(b) all loan commitments.

B11C Paragraph 39(a) and (b) requires an entity to disclose maturity analyses for financial liabilities that show the remaining contractual maturities for some financial liabilities. In this disclosure:

(a) when a counterparty has a choice of when an amount is paid, the liability is allocated to the earliest period in which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band. [includes text from deleted paragraph B12]

(b) when an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. [text from deleted paragraph B13]

(c) for issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

B11D The contractual amounts disclosed in the maturity analyses as required by paragraph 39(a) and (b) are the contractual undiscounted cash flows, for example:

(a) gross finance lease obligations (before deducting finance charges);

(b) prices specified in forward agreements to purchase financial assets for cash;

(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;

(d) contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and

(e) gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period. [includes text from deleted paragraphs B14 and B16]

B11E Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

B11F Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity:

(a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs;

(b) holds deposits at central banks to meet liquidity needs;

(c) has very diverse funding sources;

(d) has significant concentrations of liquidity risk in either its assets or its funding sources;

(e) has internal control processes and contingency plans for managing liquidity risk;

(f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);

(g) has instruments that could require the posting of collateral (eg margin calls for derivatives);

(h) has instruments that allows the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or

(i) has instruments that are subject to master netting agreements. [includes text from deleted paragraph IG31]

B12-B16 [Deleted] ~~When a counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which the entity can be required to pay. For example, financial liabilities that an entity can be required to repay on demand (eg demand deposits) are included in the earliest time band.~~

~~B13 When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay. For example, an undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.~~

~~B14 The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, for example:~~

~~(a) gross finance lease obligations (before deducting finance charges);~~

~~(b) prices specified in forward agreements to purchase financial assets for cash;~~

~~(c) net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged;~~

~~(d) contractual amounts to be exchanged in a derivative financial instrument (eg a currency swap) for which gross cash flows are exchanged; and~~

~~(e) gross loan commitments.~~

~~Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.~~

~~B15 If appropriate, an entity shall disclose the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities required by paragraph 39(a). For example, it would be appropriate to distinguish cash flows from derivative financial instruments and non-derivative financial instruments if the cash flows arising from the derivative financial instruments are settled gross. This is because the gross cash outflow may be accompanied by a related inflow.~~

~~B16 When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the reporting period.~~

Appendix D

Amendments to Basis for Conclusions on HKFRS 7 *Improving Disclosures about Financial Instruments* (issued in March 2009) – effective for annual periods beginning on or after 1 January 2009

Paragraphs BC5A and BC39A–BC39G are added.

Introduction

BC5A In October 2008 the Board published an exposure draft *Improving Disclosures about Financial Instruments* (proposed amendments to IFRS 7). The aim of the proposed amendments was to enhance disclosures about fair value and liquidity risk. The Board received 89 comment letters. After reviewing the responses, the Board issued amendments to IFRS 7 in March 2009. The Board decided to require application of the amendments for periods beginning on or after 1 January 2009. The Board noted that, although the effective date of IFRSs and amendments to IFRSs is usually 6–18 months after issue, the urgent need for enhanced disclosures about financial instruments demanded earlier application.

Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

Other disclosures—fair value (paragraphs 25–30)

BC39A Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board requires disclosures that are based on a three-level fair value hierarchy for the inputs used in valuation techniques to measure fair value. The Board was asked by some users of financial statements to include similar disclosure requirements in IFRS 7 to provide more information about the relative reliability of the inputs to fair value measurements. The Board concluded that such a hierarchy would improve comparability between entities about the effects of fair value measurements as well as increase the convergence of IFRSs and US generally accepted accounting principles (GAAP). Therefore, the Board decided to require disclosures for financial instruments on the basis of a fair value hierarchy.

BC39B Because its own fair value measurement project was not yet completed, the Board decided not to propose a fair value hierarchy for measurement, but only for disclosures. The fair value hierarchy for disclosures is the same as that in SFAS 157 but uses IFRS language pending completion of the fair value measurement project. Although the implicit fair value hierarchy for measurement in IAS 39 is different from the fair value hierarchy in SFAS 157, the Board recognised the importance of using a three-level hierarchy for disclosures that is the same as that in SFAS 157.

BC39C The Board noted the following three-level measurement hierarchy implicit in IAS 39:

(a) financial instruments quoted in an active market;

(b) financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets; and

(c) financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data.

BC39D For example, the Board acknowledged that some financial instruments that for measurement purposes are considered to have an active market in accordance with paragraphs AG71–AG73 of IAS 39 might be in Level 2 for disclosure purposes. Also, the application of paragraph AG76A of IAS 39 might result in no gain or loss being recognised on the initial recognition of a financial instrument that is in Level 2 for disclosure purposes.

BC39E The introduction of the fair value disclosure hierarchy does not affect any measurement or recognition requirements of other standards. In particular, the Board noted that the recognition of gains or losses at inception of a financial instrument (as required by paragraph AG76 of IAS 39) would not change as a result of the fair value disclosure hierarchy.

BC39F The Board decided to require additional disclosures for instruments with fair value measurements that are in Level 3 of the fair value hierarchy. These disclosures inform users of financial statements about the effects of those fair value measurements that use the most subjective inputs.

BC39G After reviewing comments received on the exposure draft, the Board decided not to require disclosure by level of the fair value hierarchy for financial instruments that are not measured at fair value in the statement of financial position. The Board noted that paragraphs 25 and 27 of IFRS 7, which require the disclosure of the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount, and the methods and assumptions applied in determining fair values, were retained.

After paragraph BC56, a heading is amended (new text is underlined and deleted text is struck through). The first sentence of paragraph BC57 is footnoted as follows 'Amendments to IFRS 7 issued in March 2009 amended paragraph 39 and paragraphs B11─B16. The paragraph references in paragraph BC57 have not been amended as a result of these amendments.' After paragraph BC58, paragraphs BC58A–BC58D are added.

Liquidity risk (paragraphs <u>34(a),</u> 39<u>, B10A</u> and <u>B11A–B11F</u> ~~B11–B16~~)

BC58A In March 2009 the Board amended the disclosure requirements on the nature and extent of liquidity risk by:

(a) amending the definition of liquidity risk to clarify that paragraph 39 applies only to financial liabilities that will result in the outflow of cash or another financial asset. This clarifies that the disclosure requirements would not apply to financial liabilities that will be settled in the entity's own equity instruments and to liabilities within the scope of IFRS 7 that are settled with non-financial assets.

(b) emphasising that an entity must provide summary quantitative data about its exposure to liquidity risk based on information provided internally to key management personnel of the entity as required by paragraph 34(a). This reinforces the principles of IFRS 7.

(c) amending the requirement in paragraph 39 to disclose a contractual maturity analysis.

BC58B The requirements in paragraph 39(a) and (b) relate to minimum benchmark disclosures as set out in paragraph 34(b) and are expected to be relatively easy to apply. However, the Board noted that the requirement to provide disclosures based on the remaining contractual maturities was difficult to apply for some derivative financial liabilities and did not always result in information that reflects how many entities manage liquidity risk for such instruments. Hence, for some circumstances the Board eliminated the previous requirement to disclose contractual maturity information for derivative financial liabilities. However, the Board retained minimum contractual maturity disclosures for non-derivative financial liabilities (including issued financial guarantee contracts within the scope of the IFRS) and for some derivative financial liabilities.

BC58C The Board noted that for non-derivative financial liabilities (including issued financial guarantee contracts within the scope of the IFRS) and some derivative financial liabilities, contractual maturities are essential for an understanding of the timing of cash flows associated with the liabilities. Therefore, this information is useful to users of financial statements. The Board concluded that disclosures based on the remaining contractual maturities of these financial liabilities should continue to be required.

BC58D The Board also emphasised the existing requirement to disclose a maturity analysis for financial assets held for managing liquidity risk, if that information is required to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Board also emphasised that an entity must explain the relationship between qualitative and quantitative disclosures about liquidity risk so that users of financial statements can evaluate the nature and extent of liquidity risk.

Contents

Amendments to Guidance on implementing HKFRS 7 *Improving Disclosures about Financial Instruments* (effective for annual periods beginning or or after 1 January 2009)

After paragraph IG13 a heading is amended (new text is underlined) and paragraphs IG13A and IG13B are added.

Significance of financial instruments for financial position and performance (paragraphs 7 – 30, B4 and B5)

Fair value (paragraphs 27 – 28)

IG13A HKFRS 7 requires disclosures about the level in the fair value hierarchy in which fair value measurements are categorised for assets and liabilities measured in the statement of financial position. A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27B(a). (Disclosure of comparative information is also required, but is not included in the following example.)

Assets measured at fair value

		Fair value measurement at the end of the reporting period using:		
		Level 1	Level 2	Level 3
Description	**31 Dec 20X2**	**CU million**	**CU million**	**CU million**
Financial assets at fair value through profit or loss				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Total	214	87	115	12

(Note: For liabilities, a similar table might be presented.)

IG13B HKFRS 7 requires a reconciliation from beginning to ending balances for those assets and liabilities that are measured in the statement of financial position at fair value based on a valuation technique for which any significant input is not based on observable market data (Level 3). A tabular format is required unless another format is more appropriate. An entity might disclose the following for assets to comply with paragraph 27B(c). (Disclosure of comparative information is also required, but is not included in the following example.)

Assets measured at fair value based on Level 3				
	Fair value measurement at the end of the reporting period:			
	Financial assets at fair value through profit or loss		**Available-for-sale financial assets**	**Total**
	Trading securities	Trading derivatives	Equity investments	
Description	CU million	CU million	CU million	CU million
Opening balance	6	5	4	15
Total gains or losses				
in profit or loss	(2)	(2)	-	(4)
in other comprehensive income	-	-	(1)	(1)
Purchases	1	2	2	5
Issues	-	-	-	-
Settlements	-	(1)	-	(1)
Transfers out of Level 3	-	(2)	-	(2)
Closing balance	5	2	5	12
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(1)	(1)	-	(2)

(Note: For liabilities, a similar table might be presented.)

Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows:

	Trading income
Total gains or losses included in profit or loss for the period	(4)
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(2)

(Note: For liabilities, a similar table might be presented.)

Two headings and paragraphs IG30 and IG31 are deleted. Some text is moved to paragraph B11F in Appendix B, Application guidance. New text is underlined and deleted text is struck through

~~Liquidity risk (paragraphs 39 and B11)~~

~~Liquidity management (paragraph 39(b))~~

IG30 – IG31 [Deleted] ~~If an entity manages liquidity risk on the basis of expected maturity dates, it might disclose a maturity analysis of the expected maturity dates of both financial liabilities and financial assets. If an entity discloses such an expected maturity analysis, it might clarify that expected dates are based on estimates made by management, and explain how the estimates are determined and the principal reasons for differences from the contractual maturity analysis that is required by paragraph 39(a).~~

~~IG31 Paragraph 39(b) requires the entity to describe how it manages the liquidity risk inherent in the maturity analysis of financial liabilities required in paragraph 39(a). The factors that the entity might consider in providing this disclosure include, but are not limited to, whether the entity:~~

~~(a) expects some of its liabilities to be paid later than the earliest date on which the entity can be required to pay (as may be the case for customer deposits placed with a bank);~~

~~(b) expects some of its undrawn loan commitments not to be drawn;~~

~~(c) holds financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs;~~

~~(d) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand by credit facilities) that it can access to meet liquidity needs;~~

~~(e) holds financial assets for which there is not a liquid market, but which are expected to generate cash inflows (principal or interest) that will be available to meet cash outflows on liabilities;~~

~~(f) holds deposits at central banks to meet liquidity needs;~~

~~(g) has very diverse funding sources; or~~

~~(h) has significant concentrations of liquidity risk in either its assets or its funding sources.~~

12 This HKFRS establishes two categories of exceptions to the principle that an entity's opening HKFRS statement of financial position shall comply with each HKFRS:

(a) paragraphs 14-17 and Appendix B prohibit~~s~~ retrospective application of some aspects of other HKFRSs.

(b) Appendices C–E grant exemptions from some requirements of other HKFRSs.

Exceptions to the retrospective application of other HKFRSs

13 This HKFRS prohibits retrospective application of some aspects of other HKFRSs. These exceptions are set out in paragraphs 14–17 and Appendix B.

Estimates

14 An entity's estimates in accordance with HKFRSs at the date of transition to HKFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

15 An entity may receive information after the date of transition to HKFRSs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with HKAS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to HKFRSs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening HKFRS statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4.

16 An entity may need to make estimates in accordance with HKFRSs at the date of transition to HKFRSs that were not required at that date under previous GAAP. To achieve consistency with HKAS 10, those estimates in accordance with HKFRSs shall reflect conditions that existed at the date of transition to HKFRSs. In particular, estimates at the date of transition to HKFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.

17 Paragraphs 14–16 apply to the opening HKFRS statement of financial position. They also apply to a comparative period presented in an entity's first HKFRS financial statements, in which case the references to the date of transition to HKFRSs are replaced by references to the end of that comparative period.

Exemptions from other HKFRSs

18 An entity may elect to use one or more of the exemptions contained in Appendices C–E. An entity shall not apply these exemptions by analogy to other items.

19 Some exemptions in Appendices C–E refer to *fair value*. In determining fair values in accordance with this HKFRS, an entity shall apply the definition of fair value in Appendix A and any more specific guidance in other HKFRSs on the determination of fair values for the asset or liability in question. Those fair values shall reflect conditions that existed at the date for which they were determined.

Presentation and disclosure

20 This HKFRS does not provide exemptions from the presentation and disclosure requirements in other HKFRSs.

(b) an entity is permitted to designate, at the date of transition to HKFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of HKAS 39 at that date.

Fair value measurement of financial assets or financial liabilities at initial recognition

D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of HKAS 39 paragraph AG76 and in paragraph AG76A, in either of the following ways:

(a) prospectively to transactions entered into after 25 October 2002; or

(b) prospectively to transactions entered into after 1 January 2004.

Decommissioning liabilities included in the cost of property, plant and equipment

D21 HK(IFRIC)-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to HKFRSs. If a first-time adopter uses this exemption, it shall:

(a) measure the liability as at the date of transition to HKFRSs in accordance with HKAS 37;

(b) to the extent that the liability is within the scope of HK(IFRIC)-Int 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and

(c) calculate the accumulated depreciation on that amount, as at the date of transition to HKFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with HKFRSs.

Financial assets or intangible assets accounted for in accordance with HK(IFRIC)-Int 12

D22 A first-time adopter may apply the transitional provisions in HK(IFRIC)-In 12.

Borrowing costs

D23 A first-time adopter may apply the transitional provisions set out in paragraphs 27 and 28 of HKAS 23, as revised in 2007. In those paragraphs references to the effective date shall be interpreted as 1 ~~July~~ January 2009 or the date of transition to HKFRSs, whichever is later.

… continued

IG Example 1 Estimates

(i) discount rates at 1 January 20X4 and 31 December 20X4 for the pension plan and for provisions reflect market conditions at those dates; and

(ii) actuarial assumptions at 1 January 20X4 and 31 December 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at 31 December 20X4 depends on the reason why entity A did not recognise a provision in accordance with previous GAAP at that date.

Assumption 1 – Previous GAAP was consistent with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with HKFRSs are consistent with its assumptions in accordance with previous GAAP. Therefore, entity A does not recognise a provision at 31 December 20X4.

Assumption 2 – Previous GAAP was not consistent with HKAS 37. Therefore, entity A develops estimates in accordance with HKAS 37. Under HKAS 37, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with HKAS 10 *Events after the Reporting Period*, the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognises a provision at 31 December 20X4. Entity A measures that provision by discounting the CU1,000 paid on 10 July 20X5 to its present value, using a discount rate that complies with HKAS 37 and reflects market conditions at 31 December 20X4.

IG4 Paragraphs 14–1~~9~~7 of the HKFRS do not override requirements in other HKFRSs that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) the distinction between finance leases and operating leases (see HKAS 17 *Leases*);

(b) the restrictions in HKAS 38 *Intangible Assets* that prohibit capitalisation of expenditure on an internally generated intangible asset if the asset did not qualify for recognition when the expenditure was incurred; and

(c) the distinction between financial liabilities and equity instruments (see HKAS 32 *Financial Instruments: Presentation*).

HKAS 12 *Income Taxes*

IG5 An entity applies HKAS 12 to temporary differences between the carrying amount of the assets and liabilities in its opening HKFRS statement of financial position and their tax bases.

IG6 In accordance with HKAS 12, the measurement of current and deferred tax reflects tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. An entity accounts for the effect of changes in tax rates and tax laws when those changes are enacted or substantively enacted.

IG Example 8 Parent adopts HKFRSs before subsidiary

Background

Parent N presents its (consolidated) first HKFRS financial statements in 20X5. Its foreign subsidiary O, wholly owned by parent N since formation, prepares information in accordance with HKFRSs for internal consolidation purposes from that date, but subsidiary O does not present its first HKFRS financial statements until 20X7.

Application of requirements

If subsidiary O applies paragraph D16(a) of the HKFRS, the carrying amounts of its assets and liabilities are the same in both its opening HKFRS statement of financial position at 1 January 20X6 and parent N's consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on parent N's date of transition to HKFRSs.

Alternatively, subsidiary O may, in accordance with paragraph D16(b) of the HKFRS, measure all its assets or liabilities based on its own date of transition to HKFRSs (1 January 20X6). However, the fact that subsidiary O becomes a first-time adopter in 20X7 does not change the carrying amounts of its assets and liabilities in parent N's consolidated financial statements.

IG Example 9 Subsidiary adopts HKFRSs before parent

Background

Parent P presents its (consolidated) first HKFRS financial statements in 20X7. Its foreign subsidiary Q, wholly owned by parent P since formation, presented its first HKFRS financial statements in 20X5. Until 20X7, subsidiary Q prepared information for internal consolidation purposes in accordance with parent P's previous GAAP.

Application of requirements

The carrying amounts of subsidiary Q's assets and liabilities at 1 January 20X6 are the same in both parent P's (consolidated) opening HKFRS statement of financial position and subsidiary Q's financial statements (except for adjustments for consolidation procedures) and are based on subsidiary Q's date of transition to HKFRSs. The fact that parent P becomes a first-time adopter in 20X7 does not change those carrying amounts (paragraph D17 of the HKFRS).

IG30 Paragraphs D16 and D17 of the HKFRS do not override the following requirements:

(a) to apply Appendix ~~B~~ C of the HKFRS to assets acquired, and liabilities assumed, in a business combination that occurred before the acquirer's date of transition to HKFRSs. However, the acquirer applies paragraph D17 to new assets acquired, and liabilities assumed, by the acquiree after that business combination and still held at the acquirer's date of transition to HKFRSs.

(b) to apply the rest of the HKFRS in measuring all assets and liabilities for which paragraphs D16 and D17 are not relevant.

(c) to give all disclosures required by the HKFRS as of the first-time adopter's own date of transition to HKFRSs.

Hong Kong Financial Reporting Standard 4

Insurance Contracts

An entity shall apply amendments resulting from *Improving Disclosures about Financial Instruments* (Amendments to HKFRS 7) issued in March 2009 for annual periods beginning on or after 1 January 2009.

Amendments resulting from HKFRS 7 *Financial Instruments: Disclosures*—Improving Disclosures about Financial Instruments (issued in March 2009) - effective for annual periods beginning on or after 1 January 2009

Paragraph 39(d) is amended (new text is underlined and deleted text is struck through).

Disclosure

Nature and extent of risks arising from insurance contracts

39 (d) information about credit risk, liquidity risk and market risk that paragraphs 31–42 of HKFRS 7 would require if the insurance contracts were within the scope of HKFRS 7. However:

(i) an insurer need not provide the maturity ~~analysis~~ analyses required by paragraph 39(a) and (b) of HKFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.

(ii) ...

Amendments resulting from HKFRS 7 *Financial Instruments: Disclosures*—Improving Disclosures about Financial Instruments (issued in March 2009) - effective for annual periods beginning on or after 1 January 2009

Paragraph IG65B is amended (new text is underlined and deleted text is struck through).

IG65B Paragraph 39(a) <u>and (b)</u> of HKFRS 7 requires disclosure of a maturity analysis for financial liabilities that shows the remaining contractual maturities. For insurance contracts, the contractual maturity refers to the estimated date when contractually required cash flows will occur. This depends on factors such as when the insured event occurs and the possibility of lapse. However, HKFRS 4 permits various existing accounting practices for insurance contracts to continue. As a result, an insurer may not need to make detailed estimates of cash flows to determine the amounts it recognises in the statement of financial position. To avoid requiring detailed cash flow estimates that are not required for measurement purposes, paragraph 39(d)(i) of HKFRS 4 states that an insurer need not provide the maturity ~~analysis~~ <u>analyses</u> required by paragraph 39(a) <u>and (b)</u> of HKFRS 7 (ie that show~~s~~ the remaining contractual maturities of insurance contracts) if it discloses an analysis, by estimated timing, of the amounts recognised in the statement of financial position.