Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 210

(Issued 18 December 2017)

This Update relates to Amendments to HKFRS 9 *Financial Instruments*.

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i & ii and replace with revised pages i & ii.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 9 (2014) *Financial Instruments* (Basis for Conclusions)	Replace the cover page and page 315 with revised cover page and revised page 315.	Note

Note:

The amendments clarify, in the Basis for Conclusions, the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. HKFRS/IFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange.

HKFRS 9 requires retrospective application. The Institute's Financial Reporting Standards Committee noted that the amendments may constitute a change in practice for some entities. Therefore, if entities apply a different accounting treatment for modifications of financial liabilities under HKAS 39, they are required to apply the amendments retrospectively on transition to HKFRS 9.

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(Updated to December 2017)

HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

HKFRS 9 BC
Issued ~~November~~ December 2017

Basis for Conclusions on
Hong Kong Financial Reporting Standard 9 (2014)

Financial Instruments

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BC4.249 The IASB provided specific transition provisions related to the fair value option because an entity may change the classification and measurement of some financial assets as a result of applying the amendments. Therefore, an entity is permitted to newly designate, and is required to revoke its previous designation of, a financial asset or a financial liability at the date of initial application of the amendments only to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists, as a result of applying the amendments.

BC4.250 Finally, the IASB decided that an entity is not required to restate prior periods to reflect the effect of the amendments, and could choose to do so only if such restatement is possible without the use of hindsight and if the restated financial statements reflect all the requirements in IFRS 9. This decision is consistent with the transition requirements in IFRS 9.

BC4.251 In addition to any disclosures required by other IFRS Standards, the IASB required disclosures that would provide information to users of financial statements about changes in the classification and measurement of financial instruments as a result of applying the amendments. These disclosures are similar to the disclosures in paragraphs 42I–42J of IFRS 7, which are required when an entity initially applies IFRS 9.

Another issue

Modification or exchange of a financial liability that does not result in derecognition

BC4.252 Concurrent with the development of the amendments to IFRS 9 for prepayment features with negative compensation, the IASB also discussed the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. More specifically, at the request of the Interpretations Committee, the Board discussed whether, applying IFRS 9, an entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

BC4.253 The IASB decided that standard-setting is not required because the requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. In doing so, the Board highlighted that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset.