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

# HKFRS 9 *Financial Instruments* – Financial Liabilities

## HKICPA Standard Setting Department Staff Summary (December 2010)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

### Introduction

1. Additions to HKFRS 9 *Financial Instruments* prescribe requirements on the accounting for financial liabilities. These requirements are added to HKFRS 9 and complete the classification and measurement phase of the project to replace HKAS 39 *Financial Instruments: Recognition and Measurement*.

2. HKFRS 9 applies to financial statements for annual periods beginning on or after 1 January 2013. Entities are permitted to apply the new requirements in earlier periods, however, if they do, they must also apply the requirements in HKFRS 9 that relate to financial assets.

### Reasons for issuing additions to HKFRS 9

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing additions to HKFRS 9 is to maintain international convergence arising from the issuance of additions to IFRS 9 by the International Accounting Standards Board's (IASB).

4. The requirements for the accounting for financial liabilities that have now been included in HKFRS 9 address the own credit problem. The new requirements eliminate profit or loss volatility arising from own credit.

### Main features of additions

5. The additions to HKFRS 9 carry forward the option in HKAS 39 *Financial Instruments: Recognition and Measurement* that permits entities to elect to measure financial liabilities at fair value through profit or loss provided that particular criteria are met.

6. In other words, except for financial liabilities that are held for trading, financial liabilities continue to be measured at amortised cost or split into a derivative component (measured at fair value) and an amortised cost component unless an entity chooses to measure a liability at fair value.

7. An entity shall present a gain or loss on a financial liability designated as at fair value through profit or loss as follows:

i. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income, and
ii. The remaining amount of change in the fair value of the liability shall be presented in profit or loss

unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

8. An accounting mismatch would be created or enlarged if presenting the effects of changes in the liability's credit risk in other comprehensive income would result in a greater mismatch in profit or loss than if those amounts were presented in profit or loss.

9. An entity must assess whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at fair value through profit or loss. Such an expectation must be based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument.

10. The determination of whether there will be a mismatch is made at initial recognition and is not reassessed.

11. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity.

12. The addition to HKFRS 9 also clarifies that credit risk is different from asset-specific performance risk. Asset-specific performance risk is not related to the risk that an entity will fail to discharge a particular obligation but rather it is related to the risk that a single asset or a group of assets will perform poorly.

13. Cost exemption for derivative liabilities to be settled by delivery of unquoted equity instruments is eliminated.

**Other references on Additions to IFRS 9**

1. Deloitte IFRS in Focus on revisions to IFRS 9 for financial liability accounting

   http://www.iasplus.com/iasplus/1011ifrs9.pdf

2. Ernst & Young "Supplement to IFRS outlook" on IASB completes Phase 1 of IFRS 9: *Financial Instruments – Classification and Measurement*
   http://www.ey.com/Publication/vwLUAssets/Supplement_89_GL_IFRS/$File/Supplement_89_GL_IFRS.pdf

3. KPMG IFRS Briefing Sheet on Additions to IFRS 9: financial liability accounting
http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/IFRS-Briefing-Sheet/Documents/IFRS-Briefing-Sheet-O-1011-219.pdf

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