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

MEMBERS' HANDBOOK

Update No. 76

(Issued 18 January 2010)

Document Reference and Title	***Instructions***	***Explanations***

VOLUME II

Contents of Volume II	Insert the revised pages i and ii. Discard the replaced pages i and ii.	Revised contents pages

The amendments to the following Standards, Basis for Conclusions and Implementation Guidance are set out in the Appendix of the Standards that created these amendments. The Institute has taken this opportunity to update the amendments in the relevant affected Standards, Basis for Conclusions and Implementation Guidance, for greater clarity.

Reference to HKAS/HKFRS contained in respective Implementation Guidance and Illustrative Examples are amended to IAS/IFRS to comply with relevant requirements contained in the International Accounting Standards Board license agreement.

HONG KONG ACCOUNTING STANDARDS (HKAS)

HKAS 1 (Revised) *Presentation of Financial Statements*	Replace the Standard, Basis for Conclusions and Implementation Guidance with revised Standard, Basis for Conclusions and Implementation Guidance	Amendments due to - HKAS 32 and HKAS 1 Amendments *Puttable Financial Instruments and Obligations Arising on Liquidation* - HKAS 27 (Revised) - HKFRS 9 - *Improvements to HKFRSs 2008* - *Improvements to HKFRSs 2009*
HKAS 1 *Presentation of Financial Statements*	Replace pages 56 and 64 with revised pages 56 and 64.	Editorial corrections to comply with IASB license agreement

HKAS 2 *Inventories*	Replace the Standard and Basis for Conclusions with revised Standard and Basis for Conclusions	Amendments due to - HKFRS 8 - *Improvements to HKFRSs 2008*
HKAS 7 *Statement of Cash Flows*	Replace the Standard with revised Standard	Amendments due to - HKAS 1 (Revised) - HKAS 23 (Revised) - HKAS 27 (Revised) - HKFRS 8 - *Improvements to HKFRSs 2008* - *Improvements to HKFRSs 2009*
HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Replace the Standard, Basis for Conclusions and Implementation Guidance with revised Standard, Basis for Conclusions and Implementation Guidance	Amendments due to - HKAS 1 (Revised) - HKAS 23 (Revised) - HKFRS 9 - *Improvements to HKFRSs 2008*
HKAS 10 *Events after the Reporting Period*	Replace the Standard and Basis for Conclusions with revised Standard and Basis for Conclusions	Amendments due to - HKAS 1 (Revised) - *Improvements to HKFRSs 2008* - HK(IFRIC) – Int 17
HKFRS 9 *Financial Instruments* (Standard)	Replace pages 5, 10, 12, 16 and 17 with revised pages 5, 10, 12, 16 and 17	Editorial corrections
HKFRS 9 *Financial Instruments* (Basis for Conclusions)	Replace pages 25-27, 35-37, 41 and 44 with revised pages 25-27, 35-37, 41 and 44	Editorial corrections
HKFRS 9 *Financial Instruments* (Amendments to other HKFRSs and guidance)	Replace the Amendments with revised Amendments.	Editorial corrections

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

MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to January 2010)

Issue/(Review date)

PREFACE AND FRAMEWORK

HONG KONG ACCOUNTING STANDARDS (HKAS)

HKAS 1 (Revised)
Revised ~~May 2009~~ January 2010

Effective for annual periods
beginning on or after 1 January 2009*

Hong Kong Accounting Standard 1 (Revised)

Presentation of Financial Statements

* (a) HKAS 1 (Revised) is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. HKAS 1 (Revised) supersedes HKAS 1 issued in 2004, as amended in 2005.

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

CONTENTS

Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) is set out in paragraphs 1–140 and Appendices A and D~~E~~. All the paragraphs have equal authority. HKAS 1 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.

This revised Standard was issued in December 2007 and revised in ~~June 2008~~January 2010. It supersedes HKAS 1, issued in 2004, as amended in 2005.

Introduction

IN1 Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) replaces HKAS 1 *Presentation of Financial Statements* (issued in 2004) as amended in 2005. HKAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Reasons for revising HKAS 1

IN2 The objective of Hong Kong Institute of Certified Public Accountants (HKICPA) revising HKAS 1 is to maintain international convergence arising from the revision of IAS 1 *Presentation of Financial Statements* by the International Accounting Standards Board (IASB). The HKICPA supported the reasons for revising IAS 1 of the IASB.

The main objective of the IASB in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With this in mind, the IASB considered it useful to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Consequently, the IASB decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity.

IN3 In its review, the IASB also considered FASB Statement No. 130 *Reporting Comprehensive Income* (SFAS 130) issued in 1997. The requirements in IAS 1 regarding the presentation of the statement of comprehensive income are similar to those in SFAS 130; however, some differences remain and those are identified in paragraph BC106 of the Basis for Conclusions.

IN4 In addition, the IASB's intention in revising IAS 1 was to improve and reorder sections of IAS 1 to make it easier to read. The IASB's objective was not to reconsider all the requirements of IAS 1.

Main features of HKAS 1

IN5 HKAS 1 affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

IN6 HKAS 1 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

IN7 HKAS 1 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when the entity reclassifies items in the financial statements.

IN8 HKAS 1 requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

IN9 HKAS 1 requires the presentation of dividends recognised as distributions to owners and related amounts per share in the statement of changes in equity or in the notes. Dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity.

Changes from previous requirements

IN10 The main changes from the previous version of HKAS 1 are described below.

A complete set of financial statements

IN11 The previous version of HKAS 1 used the titles ‘balance sheet’ and ‘cash flow statement’ to describe two of the statements within a complete set of financial statements. HKAS 1 uses ‘statement of financial position’ and ‘statement of cash flows’ for those statements. The new titles reflect more closely the function of those statements, as described in the *Framework* (see paragraphs BC14–BC21 of the Basis for Conclusions).

IN12 HKAS 1 requires an entity to disclose comparative information in respect of the previous period, ie to disclose as a minimum two of each of the statements and related notes. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The purpose is to provide information that is useful in analysing an entity’s financial statements (see paragraphs BC31 and BC32 of the Basis for Conclusions).

Reporting owner changes in equity and comprehensive income

IN13 The previous version of HKAS 1 required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity. It also labelled the statement of changes in equity comprising profit or loss, other items of income and expense and the effects of changes in accounting policies and correction of errors as ‘statement of recognised income and expense’. HKAS 1 now requires:

(a) all changes in equity arising from transactions with owners in their capacity as owners (ie owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (ie non-owner changes in equity) in the statement of changes in equity. The purpose is to provide better information by aggregating items with shared characteristics and separating items with different characteristics (see paragraphs BC37 and BC38 of the Basis for Conclusions).

(b) income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity (see paragraphs BC49–BC54 of the Basis for Conclusions).

(c) components of other comprehensive income to be displayed in the statement of comprehensive income.

(d) total comprehensive income to be presented in the financial statements.

Other comprehensive income—reclassification adjustments and related tax effects

IN14 HKAS 1 requires an entity to disclose income tax relating to each component of other comprehensive income. The previous version of HKAS 1 did not include such a requirement. The purpose is to provide users with tax information relating to these components because the components often have tax rates different from those applied to profit or loss (see paragraphs BC65–BC68 of the Basis for Conclusions).

IN15 HKAS 1 also requires an entity to disclose reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in previous periods. The purpose is to provide users with information to assess the effect of such reclassifications on profit or loss (see paragraphs BC69–BC73 of the Basis for Conclusions).

Presentation of dividends

IN16 The previous version of HKAS 1 permitted disclosure of the amount of dividends recognised as distributions to equity holders (now referred to as 'owners') and the related amount per share in the income statement, in the statement of changes in equity or in the notes. HKAS 1 requires dividends recognised as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of comprehensive income is not permitted (see paragraph BC75 of the Basis for Conclusions). The purpose is to ensure that owner changes in equity (in this case, distributions to owners in the form of dividends) are presented separately from non-owner changes in equity (presented in the statement of comprehensive income).

Hong Kong Accounting Standard 1
Presentation of Financial Statements

Objective

1 This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope

2 An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRSs).

3 Other HKFRSs set out the recognition, measurement and disclosure requirements for specific transactions and other events.

4 This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with HKAS 34 *Interim Financial Reporting*. However, paragraphs 15–35 apply to such financial statements. This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in HKAS 27 *Consolidated and Separate Financial Statements*.

5 This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.

6 Similarly, entities that do not have equity as defined in HKAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

Definitions

7 The following terms are used in this Standard with the meanings specified:

General purpose financial statements **(referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.**

Impracticable **Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.**

Hong Kong Financial Reporting Standards (HKFRSs) **are Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:**

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

Material **Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Notes **contain information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.**

Other comprehensive income **comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other HKFRSs.**

The components of other comprehensive income include:

(a) changes in revaluation surplus (see HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*);

(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of HKAS 19 *Employee Benefits*;

(c) gains and losses arising from translating the financial statements of a foreign operation (see HKAS 21 *The Effects of Changes in Foreign Exchange Rates*);

(d) gains and losses on remeasuring available-for-sale financial assets (see HKAS 39 *Financial Instruments: Recognition and Measurement*);

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see HKAS 39).

Owners **are holders of instruments classified as equity.**

Profit or loss **is the total of income less expenses, excluding the components of other comprehensive income.**

Reclassification adjustments **are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.**

Total comprehensive income **is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.**

Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.

8 Although this Standard uses the terms 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.

8A The following terms are described in HKAS 32 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in HKAS 32:

(a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of HKAS 32)

(b) an instrument that imposes on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation and is classified as an equity instrument (described in paragraphs 16C and 16D of HKAS 32).

Financial statements

Purpose of financial statements

9 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) equity;

(d) income and expenses, including gains and losses;

(e) contributions by and distributions to owners in their capacity as owners; and

(f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Complete set of financial statements

10 A complete set of financial statements comprises:

(a) a statement of financial position as at the end of the period;

(b) a statement of comprehensive income for the period;

(c) a statement of changes in equity for the period;

(d) a statement of cash flows for the period;

(e) **notes, comprising a summary of significant accounting policies and other explanatory information; and**

(f) **a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.**

An entity may use titles for the statements other than those used in this Standard.

11 **An entity shall present with equal prominence all of the financial statements in a complete set of financial statements.**

12 As permitted by paragraph 81, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. When an income statement is presented it is part of a complete set of financial statements and shall be displayed immediately before the statement of comprehensive income.

13 Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position, and the principal uncertainties it faces. Such a report may include a review of:

(a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;

(b) the entity's sources of funding and its targeted ratio of liabilities to equity; and

(c) the entity's resources not recognised in the statement of financial position in accordance with HKFRSs.

14 Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of HKFRSs.

General features

True and fair view and compliance with HKFRSs

15 **Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity. True and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*. The application of HKFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a true and fair view.**

16 **An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with HKFRSs unless they comply with all the requirements of HKFRSs.**

17 In virtually all circumstances, an entity achieves a true and fair view by compliance with applicable HKFRSs. A true and fair view also requires an entity:

(a) to select and apply accounting policies in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. HKAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an HKFRS that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

18 An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

19 In the extremely rare circumstances in which management concludes that compliance with a requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

20 When an entity departs from a requirement of an HKFRS in accordance with paragraph 19, it shall disclose:

(a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

(b) that it has complied with applicable HKFRSs, except that it has departed from a particular requirement to achieve a true and fair view;

(c) the title of the HKFRS from which the entity has departed, the nature of the departure, including the treatment that the HKFRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Framework*, and the treatment adopted; and

(d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

21 When an entity has departed from a requirement of an HKFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).

22 Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an HKFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

23 In the extremely rare circumstances in which management concludes that compliance with a requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) the title of the HKFRS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a true and fair view.

24 For the purpose of paragraphs 19–23, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an HKFRS would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Going concern

25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

27 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

28 When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Materiality and aggregation

29 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

31 An entity need not provide a specific disclosure required by an HKFRS if the information is not material.

Offsetting

32 An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an HKFRS.

33 An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statements of comprehensive income or financial position or in the separate income statement (if presented), except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

34 HKAS 18 *Revenue* defines revenue and requires an entity to measure it at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

35 In addition, an entity presents on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. However, an entity presents such gains and losses separately if they are material.

Frequency of reporting

36 An entity shall present a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period, and

(b) the fact that amounts presented in the financial statements are not entirely comparable.

37. Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice.

Comparative information

38 Except when HKFRSs permit or require otherwise, an entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

39 An entity disclosing comparative information shall present, as a minimum, two statements of financial position, two of each of the other statements, and related notes. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

(a) the end of the current period,

(b) the end of the previous period (which is the same as the beginning of the current period), and

(c) the beginning of the earliest comparative period.

40 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting period and that is yet to be resolved. Users benefit from information that the uncertainty existed at the end of the immediately preceding reporting period, and about the steps that have been taken during the period to resolve the uncertainty.

41 When the entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable. When the entity reclassifies comparative amounts, the entity shall disclose:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

42 When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts, and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

43 Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

44 HKAS 8 sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Consistency of presentation

45 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in HKAS 8; or

(b) an HKFRS requires a change in presentation.

46. For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42.

Structure and content

Introduction

47 This Standard requires particular disclosures in the statement of financial position or of comprehensive income, in the separate income statement (if presented), or in the statement of changes in equity and requires disclosure of other line items either in those statements or in the notes. HKAS 7 *Statement of Cash Flows* sets out requirements for the presentation of cash flow information.

48 This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented in the financial statements. Disclosures are also required by other HKFRSs. Unless specified to the contrary elsewhere in this Standard or in another HKFRS, such disclosures may be made in the financial statements.

Identification of the financial statements

49 An entity shall clearly identify the financial statements and distinguish them from other information in the same published document.

50 HKFRSs apply only to financial statements, and not necessarily to other information presented in an annual report, a regulatory filing, or another document. Therefore, it is important that users can distinguish information that is prepared using HKFRSs from other information that may be useful to users but is not the subject of those requirements.

51 An entity shall clearly identify each financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:

(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(b) whether the financial statements are of an individual entity or a group of entities;

(c) the date of the end of the reporting period or the period covered by the set of financial statements or notes;

(d) the presentation currency, as defined in HKAS 21; and

(e) the level of rounding used in presenting amounts in the financial statements.

52 An entity meets the requirements in paragraph 51 by presenting appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting such information. For example, when an entity presents the financial statements electronically, separate pages are not always used; an entity then presents the above items to ensure that the information included in the financial statements can be understood.

53 An entity often makes financial statements more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.

Statement of financial position

Information to be presented in the statement of financial position

54 As a minimum, the statement of financial position shall include line items that present the following amounts:

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) financial assets (excluding amounts shown under (e), (h) and (i));

(e) investments accounted for using the equity method;

(f) biological assets;

(g) inventories;

(h) trade and other receivables;

(i) cash and cash equivalents;

(j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(k) trade and other payables;

(l) provisions;

(m) financial liabilities (excluding amounts shown under (k) and (l));

(n) liabilities and assets for current tax, as defined in HKAS 12 *Income Taxes*;

(o) deferred tax liabilities and deferred tax assets, as defined in HKAS 12;

(p) liabilities included in disposal groups classified as held for sale in accordance with HKFRS 5;

(q) ~~minority interest~~non-controlling interests, presented within equity; and

(r) issued capital and reserves attributable to owners of the parent.

55 An entity shall present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

56 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

57 This Standard does not prescribe the order or format in which an entity presents items. Paragraph 54 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

58 An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

59 The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with HKAS 16.

Current/non-current distinction

60 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity.

61 Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period, and

(b) more than twelve months after the reporting period.

62 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

63 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/ non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

64 In applying paragraph 60, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. HKFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

66 An entity shall classify an asset as current when:

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in HKAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

67 This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

68 The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets ~~within this category are~~ classified as held for trading in accordance with HKAS 39) and the current portion of non-current financial assets.

Current liabilities

69* **An entity shall classify a liability as current when:**

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) ~~the entity~~it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

70 Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities classified as held for trading in accordance with HKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.

72 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months, and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

73 If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

74 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

* Effective for annual periods beginning on or after 1 January 2010.

75 However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

76 In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with HKAS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Information to be presented either in the statement of financial position or in the notes

77 An entity shall disclose, either in the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.

78 The detail provided in subclassifications depends on the requirements of HKFRSs and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with HKAS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are disaggregated, in accordance with HKAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated into provisions for employee benefits and other items; and

(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

79 An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

80 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 79(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

80A If an entity has reclassified

(a) a puttable financial instrument classified as an equity instrument, or

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument

Between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.

Statement of comprehensive income

81 An entity shall present all items of income and expense recognised in a period:

(a) in a single statement of comprehensive income, or

(b) in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

Information to be presented in the statement of comprehensive income

82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

(a) revenue;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(d) tax expense;

(e) a single amount comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;

(f) profit or loss;

(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

(i) total comprehensive income.

83 **An entity shall disclose the following items in the statement of comprehensive income as allocations ~~of profit or loss~~ for the period:**

(a) profit or loss for the period attributable to:

(i) ~~minority interest~~non-controlling interests, and

(ii) owners of the parent.

(b) total comprehensive income for the period attributable to:

(i) ~~minority interest~~non-controlling interests, and

(ii) owners of the parent.

84 **An entity may present in a separate income statement (see paragraph 81) the line items in paragraph 82(a)–(f) and the disclosures in paragraph 83(a).**

85 **An entity shall present additional line items, headings and subtotals in the statement of comprehensive income and the separate income statement (if presented), when such presentation is relevant to an understanding of the entity's financial performance.**

86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of comprehensive income and in the separate income statement (if presented), and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.

87 **An entity shall not present any items of income or expense as extraordinary items, in the statement of comprehensive income or the separate income statement (if presented), or in the notes.**

Profit or loss for the period

88 **An entity shall recognise all items of income and expense in a period in profit or loss unless an HKFRS requires or permits otherwise.**

89 Some HKFRSs specify circumstances when an entity recognises particular items outside profit or loss in the current period. HKAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other HKFRSs require or permit components of other comprehensive income that meet the *Framework*'s definition of income or expense to be excluded from profit or loss (see paragraph 7).

Other comprehensive income for the period

90 An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes.

91 An entity may present components of other comprehensive income either:

(a) net of related tax effects, or

(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

92 An entity shall disclose reclassification adjustments relating to components of other comprehensive income.

93 Other HKFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

94 An entity may present reclassification adjustments in the statement of comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the components of other comprehensive income after any related reclassification adjustments.

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see HKAS 21), on derecognition of available-for-sale financial assets (see HKAS 39) and when a hedged forecast transaction affects profit or loss (see paragraph 100 of HKAS 39 in relation to cash flow hedges).

96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with HKAS 16 or HKAS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of HKAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see HKAS 16 and HKAS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see HKAS 19).

Information to be presented in the statement of comprehensive income or in the notes

97 When items of income or expense are material, an entity shall disclose their nature and amount separately.

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

99 An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of comprehensive income or in the separate income statement (if presented).

101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.

102 The first form of analysis is the 'nature of expense' method. An entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

103 The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit before tax	X

104 An entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

105 The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the presentation that is reliable and more relevant. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 104, 'employee benefits' has the same meaning as in HKAS 19.

Statement of changes in equity

106 An entity shall present a statement of changes in equity showing in the statement:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to ~~minority~~ non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with HKAS 8; and

(c) ~~the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and~~[deleted]

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing ~~each~~ changes~~.~~ resulting from:

(i) profit or loss;

(ii) each item of other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that not result in a loss of control.

107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount per share.

108 In paragraph 106, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

109 Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with owners in their capacity as owners (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

110 HKAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another HKFRS require otherwise. HKAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance of retained earnings, except when an HKFRS requires retrospective adjustment of another component of equity. Paragraph 106(b) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

Statement of cash flows

111 Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. HKAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

112 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;

(b) disclose the information required by HKFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

113 An entity shall, as far as practicable, present notes in a systematic manner. An entity shall cross-reference each item in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows to any related information in the notes.

114 An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with HKFRSs (see paragraph 16);

(b) summary of significant accounting policies applied (see paragraph 117);

(c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate income statement (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see HKAS 37) and unrecognised contractual commitments, and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see HKFRS 7).

115 In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.

116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

117 An entity shall disclose in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements, and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in HKFRSs. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see HKAS 31 *Interests in Joint Ventures*). Some HKFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, HKAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120 Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by HKFRSs but the entity selects and applies in accordance with HKAS 8.

122 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

(a) whether financial assets are held-to-maturity investments;

(b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the entity and a special purpose entity indicates that the entity controls the special purpose entity.

124 Some of the disclosures made in accordance with paragraph 122 are required by other HKFRSs. For example, HKAS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. HKAS 40 *Investment Property* requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Sources of estimation uncertainty

125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period.

126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant

and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

132 The disclosures in paragraph 122 of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the disclosures of sources of estimation uncertainty in paragraph 125.

133 Other HKFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, HKAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. HKFRS 7 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. HKAS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

Capital

134 An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

135 To comply with paragraph 134, the entity discloses the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous period.

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these disclosures on the information provided internally to key management personnel.

136 An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

<u>Puttable financial instruments classified as equity</u>

<u>136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):</u>

<u>(a) summary quantitative data about the amount classified as equity;</u>

<u>(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;</u>

<u>(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and</u>

<u>(d) information about how the expected cash outflow on redemption or repurchase was determined.</u>

Other disclosures

137 An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its principal activities;~~ and~~

(c) the name of the parent and the ultimate parent of the group~~.~~; and

(d) if it is a limited life entity, information regarding the length of its life.

Transition and effective date

139 An entity shall apply this Standard for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity adopts this Standard for an earlier period, it shall disclose that fact.

139A HKAS 27 (as amended in 2008) amended paragraph 106. An entity shall apply that amendment for annual periods beginning or or after 1 July 2009. If an entity applies HKAS 27 (amended 2008) for an earlier period, the amendment shall be applied for that earlier period. The amendment shall be applied retrospectively.

139B *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to HKAS 32 and HKAS 1), issued in June 2008, amended paragraph 138 and inserted paragraphs 8A, 80A and 136A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact and apply the related amendments to HKAS 32, HKAS 39, HKFRS 7 and HK(IFRIC)-Int 2 *Members' Shares in Co-operative Entities and Similar Instruments* at the same time.

139C Paragraphs 68 and 71 were amended by *Improvements to HKFRSs* issued in May 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

139D Paragraph 69 was amended by *Improvements to HKFRSs* issued in May 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Withdrawal of HKAS 1 (issued 2004)

140 This Standard supersedes HKAS 1 *Presentation of Financial Statements* issued in 2004, as amended in 2005.

Appendix A
Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

***

The amendments contained in this appendix when the Standard was received in 2007 have been incorporated into the relevant pronouncements.

Appendix B
Comparison with International Accounting Standards

This comparison appendix, which was prepared as at December 2007 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 1.

The International Accounting Standard comparable with HKAS 1 is IAS 1 *Presentation of Financial Statements*.

The following sets out the major textual difference between HKAS 1 and IAS 1 and the reason for the difference.

Difference	Reason for the differences
(i) IAS 1 paras 15-24 vs HKAS 1 paras 15-24 The terms 'fair presentation' and 'present fairly' used in IAS 1 are replaced by the terms 'true and fair view' and 'achieve a true and fair view' in HKAS 1	To match with the terms used in the Hong Kong Companies Ordinance

Appendix C
Notes on Legal Requirements in Hong Kong

This appendix accompanies, but is not part of, HKAS 1.

The following sets out the legal requirements in Hong Kong that are pertinent to each Hong Kong Accounting Standards or Hong Kong Financial Reporting Standards. The references to "the Schedule" below are to the Tenth Schedule to the Companies Ordinance ("CO").

1.	**HKAS 1 *Presentation of Financial Statements***
	Sections 122 and 123 of the CO requires the directors of a company to prepare a profit and loss account for each financial year, and a balance sheet as at the last day of that year. The accounts must give a true and fair view of the profit or loss and of the state of affairs of the company, and comply with the requirements of the Schedule. Based on the communication with International Accounting Standards Board, the HKICPA believes that the term 'true and fair view' and the term 'fair presentation' used in IAS 1, *Presentation of Financial Statements* are equivalent terms. Please also refer to paragraph 46 of the Framework which contains certain references to the two terms. Sections 124 to 126 of the CO requires, where a company has a subsidiary at the end of its financial year, the directors of a company to prepare group accounts unless the company is, at the end of its financial year, a wholly owned subsidiary of another body corporate. Group accounts, which normally comprise a consolidated balance sheet and a consolidated profit and loss account, must give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries. Section 129D of the CO requires a directors' report to be attached to every balance sheet laid before a company in general meeting. The legal requirements with regard to the content of a directors' report are dealt with in Sections 129D, 129E and 141C of the CO. Section 122 of the CO requires a company's accounts, together with the directors' report and auditors' reports to be laid before the company at its annual general meeting and the accounts of private companies (other than a private company which is a member of a group of companies which includes a non-private company) and companies limited by guarantee, and all other companies to be made up to not more than 9 and 6 months, respectively, prior to the meeting. Section 111 of the CO requires that, unless approved by the Registrar of Companies, no more than 15 months should elapse between the date of one annual general meeting and the next, and that the first annual general meeting of the company must be held within 18 months of its incorporation. In general terms the legal requirements with regard to the form and content of the accounts are dealt with, inter alia, in Section 122 to 129A and Sections 161 to 161C of the CO and the Schedule.
2	**HKAS 2 *Inventories***
	Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.

3	**HKAS 8** ***Accounting Policies, Changes in Accounting Estimates and Errors***
	Paragraph 17(6)* of the Schedule requires disclosure of the following: "Any material respects in which any items shown in the profit and loss account are affected – ***a. by transactions of a sort not usually undertaken by the company or otherwise by circumstances of an exceptional or non-recurrent nature; or*** b. by any change in the basis of accounting."
4	**HKAS 10** ***Events After the Reporting Period***
	Paragraph 9(1)(e) of the Schedule requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend under a separate heading(s) in the balance sheet. Paragraph 13(1)(j) of the Schedule requires the disclosure of the aggregate amount of the dividend paid and proposed in the profit and loss account.
5	**HKAS 11** ***Construction Contracts***
	Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.
6	***HKAS 12*** **Incomes Taxes**
	Paragraph 8* of the Schedule requires that if an amount is set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation, it shall be stated. Paragraph 12(12)* the Schedule requires that, if such amount has been used during the financial year for another purpose, the amount thereof and the fact that it has been so used shall be stated. Paragraph 12(15) of the Schedule requires disclosure of the basis on which the amount, if any, set aside for Hong Kong profits tax is computed. Paragraph 13(1)(c)* of the Schedule requires disclosure of the amount of the charge to revenue for taxes imposed by the Inland Revenue Ordinance and, if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief, and the amount of the charge for taxation imposed outside Hong Kong of profits, income and (so far as charged to revenue) capital gains. Paragraph 17(3)* of the Schedule requires that the basis on which the charge for Hong Kong profit tax is computed shall be stated. Particulars are required of any special circumstances affecting the tax liability for the financial year or succeeding financial years (paragraph 17(4) of the Schedule).

7	HKAS 16 *Property, Plant and Equipment*
	Paragraph 4† of the Schedule requires that fixed assets, current assets and assets that are neither fixed nor current shall be separately identified, and that the method used to arrive at the amount of fixed assets under each heading should be stated. Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured. Paragraph 12(4)† of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Paragraph 12(8)* of the Schedule requires disclosure of the amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to: a. land in Hong Kong held on long lease (not less than 50 years), medium-term lease (10 to 50 years) and short lease (under 10 years) respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.

8	**HKAS 17 *Leases***
	Paragraph 13(1)(i)*† of the Schedule requires disclosure of the amount, if material, charged to revenue in respect of sums payable in respect of the hire of plant and machinery.
9	**HKAS 18 *Revenue***
	Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments. Paragraph 13(1)(h)† requires disclosure of rents from land and buildings (after deduction of ground rents, rates and other out-going) if a substantive part of the company's revenue for the financial year consists of such rents. Paragraph 16 of the Schedule requires disclosure of turnover and the method by which it is arrived at. Turnover should consist of revenue arising from the principal activities of the entity and therefore should not usually include those items of revenue and gains that arise incidentally.
10	**HKAS 19 *Employee Benefits***
	The legal requirements as regards the disclosure of directors' emoluments, rights to acquire shares or debentures and other benefits are dealt with in the section below concerning HKAS 24 *Related Party Disclosures*. Under the Employment Ordinance, an enterprise is required to make long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain conditions and the termination meets the required circumstances. However, where an employee is simultaneously entitled to a long service payment and to a retirement scheme payment, the amount of the long service payment may be reduced by certain benefits arising from the retirement scheme. Based on the enterprise's past experience and the directors' knowledge of the business and work force, it is probable that the enterprise will have to make long service payments to some employees on termination of their employment or retirement. Such long service payments are accounted for as "post-employment benefits: defined benefit plans". Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. The amount provided for certain employee benefits (e.g. pensions) falls within this definition. Paragraph 4(1)† of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 6*† of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings. Paragraph 7*† of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.

	Paragraph 13(1)(f)*† of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if its is material. Paragraph 12(5)*† of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.
11	**HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance***
	Paragraph 4† of the Schedule requires that the method used to arrive at the amount of fixed assets under each heading should be stated. Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 12(5)*† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.
12	**HKAS 21 *The Effects of Changes in Foreign Exchange Rates***
	Paragraph 12(14)* of the schedule requires disclosure of the basis on which other currencies have been converted into currency in which the balance sheet is expressed, where the amount of the assets or liabilities affected is material.
13	**HKAS 22 *Business Combinations***
	The legal requirements in Hong Kong with regard to the form and content of group accounts and other matters relating to subsidiaries of a company are dealt with in the section below concerning HKAS 27 *Consolidated and Separate Financial Statements*. The Schedule contains the following disclosure requirements for goodwill: a. Balance sheet Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balance of goodwill either as a separate item or aggregated with any unamortised balances on patents and trademarks. This requirement applies whether the goodwill is carried as a separate balance in the books or can only be ascertained from contracts or documents. b. Profit and loss account The amortisation treatment involves the allocation of cost of purchased goodwill over its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore the disclosure requirements of paragraph 13(1)(a)*† of that Schedule apply and the amount charged to revenue for amortisation of goodwill should be disclosed.

14	**HKAS 23 *Borrowing Costs***
	Paragraph 13(1)(b)* of the Schedule requires disclosure of the following: "the amount of the interest on loans of the following kinds made to the company (whether on the security of debentures or not), namely, bank loans, overdrafts and loans which, not being bank loans or overdrafts, i. are repayable otherwise than by instalments and fall due for repayment before the expiration of the period of 5 years beginning with the day next following the expiration of the financial year; or ii. are repayable by instalments the last of which falls due for payment before the expiration of that period; and the amount of the interest on loans of other kinds so made (whether on the security of debentures or not)".
15	**HKAS 24 *Related Party Disclosures***
	Section 128 of the CO requires that if at the end of its financial year, a company has subsidiaries, the following should be disclosed in the accounts: a. the subsidiary's name; b. its country of incorporation; and c. in relation to shares of each class of the subsidiary held by the company, the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Section 129 of the CO requires, subject to certain exemption set out in sections 129(3) to 129(5) that if at the end of its financial year, a company holds more than 20% of any class of issued shares of another body corporate (not being a subsidiary), or the shareholding in another body corporate (not being a subsidiary) exceeds 10% of the total assets of the company, the following should be disclosed: a. the name of that other body corporate; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Section 129A of the CO requires disclosure of the name and country of incorporation of the body corporate regarded by the directors as being the company's ultimate holding company. Section 129D(3)(i) of the CO requires disclosure in the directors' report of the names of the persons who, at any time during the financial year, were directors of the company. Section 129D(3)(ia) of the CO requires disclosure in the directors' report of a statement of the existence and duration of any contract in force during the year for the management and administration of the whole or any substantial part of the company's business, together with the name of any director interested therein. Section 129D(3)(j) of the CO requires disclosure in the directors' report of any interest of a director in a contract with the company or its subsidiary, holding company or fellow subsidiary, if, in the opinion of the directors, the contract is significant in relation to the company's business and the director's interest is material, whether directly or indirectly, at any time in the year, stating:

a. the fact that the contract subsists or subsisted;
b. the names of the parties involved (other than the company);
c. the name of the director (if not a party);
d. the nature of the contract; and
e. the nature of the director's interest.

This does not apply to directors' service contracts nor to contracts between the company and another body corporate where a director's only interest is by virtue of his being a director of that other body.

Section 129D(3)(k) of the CO requires disclosure in the directors' report of any directors' rights to acquire shares or debentures, in the company or any other body corporate, under any arrangement to which the company or its subsidiary, holding company or fellow subsidiary is a party, explaining the effects of the arrangement and giving the names of all directors during the year who held shares or debentures acquired pursuant to the arrangement.

Section 161 of the CO requires disclosure of the following, distinguishing between emoluments in respect of services as director (of the company or its subsidiary) and other emoluments:

a. the aggregate amount of directors' emoluments;
b. the aggregate amount of directors' or past directors' pensions; and
c. the aggregate amount of any compensation to directors or past directors in respect of loss of office, distinguishing between sums paid by or receivable from the company, its subsidiaries and any other persons.

Section 161B $^{\Phi}$ of the CO requires the accounts to contain certain particulars of every relevant transaction, being a loan, quasi-loan or credit transaction, entered into by the company during that financial year or, if made or entered into before it, is outstanding at any time during that financial year to the following parties:

a. a director or an officer of the company;
b. a director of its holding company;
c. a body corporate controlled by a director of the company; or
d. persons etc. connected with a director of the company or of its holding company;

Paragraph 9(1)(c) of the Schedule requires disclosure of loans to employees, or to trustees for employees (including salaried directors), to purchase fully paid shares in the company or in its holding company.

Paragraph 18(2)* of the CO of the Schedule requires the aggregate amounts of shares in, and the amounts owing from (and indebtedness to) the company's subsidiaries to be set out separately from all other assets (and liabilities) of the company.

	Paragraph 18(3)* of the CO requires disclosure of the number, description and amount of the shares in and debentures of the company held by its subsidiaries or their nominees except where the subsidiaries or their nominees hold the shares as trustees and neither the company nor the subsidiaries have any beneficial interest in those shares. Paragraph 19(1)* of the CO of the Schedule requires disclosure of the aggregate amounts owing from and indebtedness to the company's holding companies and fellow subsidiaries, and the aggregate amount of assets consisting of shares in fellow subsidiaries.
16	**HKAS 27 *Consolidated and Separate Financial Statements***
	Under section 2(4) of the CO, a company shall be deemed to be a subsidiary of another company, if: a. that other company: i. controls the composition of the board of directors of the first mentioned company; or ii. controls more than half of the voting power of the first mentioned company; or iii. holds more than half of the issued share capital of the first mentioned company (excluding any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital); or b. the first mentioned company is a subsidiary of any company which is that other company's subsidiary. For the purposes of defining a subsidiary under section 2(4) of the CO, section 2(5) of the CO states that the composition of a company's board of directors shall be deemed to be controlled by another company if that other company by the exercise of some power exercisable by it, without the consent of any other person, can appoint or remove all or a majority of the directors, and, for the purposes of this provision, that other company shall be deemed to have power to make such an appointment if: a. a person cannot be appointed as a director without the exercise in his favour by that other company of such a power; or b. a person's appointment as a director follows necessarily from his being a director or other officer of that other company.

The Companies (Amendment) Ordinance 2005 introduced a definition of "parent undertaking" and "subsidiary undertaking". A provision to deem a holding company to include a parent company and a subsidiary to include a subsidiary undertaking was added in Section 2B. In essence, this enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts. Parent undertaking and subsidiary undertaking are defined in Schedule 23 as follows:

(1) An undertaking is a parent undertaking ("parent undertaking") in relation to another undertaking ("subsidiary undertaking") if—

(a) (i) in the case where both the parent undertaking and the subsidiary undertaking are bodies corporate, the subsidiary undertaking is a subsidiary of the parent undertaking by virtue of section 2(4), (5), (6) and (7) of the CO; or

(ii) in any other case, the parent undertaking—
(A) holds a majority of the voting rights in the subsidiary undertaking;
(B) is a member of the subsidiary undertaking and has the right to appoint or remove a majority of its board of directors; or
(C) is a member of the subsidiary undertaking and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in the subsidiary undertaking; or

(b) the parent undertaking has the right to exercise a dominant influence over the subsidiary undertaking by virtue of—
(i) the provisions contained in the subsidiary undertaking's memorandum or articles or equivalent constitutional documents; or
(ii) a control contract.

(2) For the purposes of subsection (1)(a)(ii), an undertaking shall be treated as a member of another undertaking ("the relevant undertaking"), if—

(a) any of its subsidiary undertakings is a member of the relevant undertaking; or

(b) any shares in the relevant undertaking are held by a person acting on behalf of the first-mentioned undertaking or any of its subsidiary undertakings.

(3) An undertaking shall be treated as the parent undertaking of another undertaking if a subsidiary undertaking of the first-mentioned undertaking is, or is to be treated as, the parent undertaking of that other undertaking; and references to a subsidiary undertaking of the first-mentioned undertaking shall be construed accordingly.

The obligation to lay group accounts before the members of a holding company in general meeting is set out in section 124(1) of the CO. In general terms the form and content of group accounts are dealt with inter alia in sections 125 and 126 of the CO and in the Schedule.

Under section 124(2)(a) of the CO group accounts shall not be required where the holding company is at the end of its financial year the wholly-owned subsidiary of another body corporate.

Section 124(2)(b) of the Companies Ordinance also allows group accounts (subject to approval of the Financial Secretary in certain instances) not to deal with a subsidiary if the company's directors are of the opinion that:

a. it is impracticable, or would be of no real value to members of the company, in view of the insignificant amount involved, or would involve expense or delay out of proportion to the value to members of the company; or

b. the result would be misleading, or harmful to the business of the company or any of its subsidiaries; or

c. the business of the holding company and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking.

It should be noted that HKAS 27 takes the view that all subsidiaries should be included in the consolidated financial statements.

In general, section 125 of the CO requires group accounts to be presented in the form of consolidated accounts and should comprise a consolidated balance sheet and a consolidated profit and loss account dealing with the state of affairs and profit or loss of the company and its subsidiaries. However, section 125 of the CO also accepts that group accounts may be presented in a form other than a single set of consolidated accounts under certain conditions. It is generally accepted that consolidated financial statements are usually the best means of achieving the objective of giving a true and fair view of the profit or loss and of the state of affairs of the group. It should be noted that, where subsidiaries are not dealt with in group accounts or are being dealt with in a form of group accounts other than consolidated financial statements, information may still be required by law about the results of these subsidiaries and the extent to which they have been dealt with in the accounts of the holding company (paragraphs 18(4) and 24 of the Schedule).

Section 127(1) of the of the CO states that a holding company's directors shall secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiaries shall coincide with the company's own financial year.

Section 126(2) of the CO requires that, if the financial year of a subsidiary is not co-terminous with that of the holding company, the group accounts shall deal with the subsidiary's results and state of affairs as of the last financial year ending on or before the date of the holding company's balance sheet. It also requires the disclosure of the reasons why the financial year of a subsidiary does not coincide with that of the holding company.

Paragraph 18(2) and 19(1) of the Schedule require disclosure of the aggregate amounts of shares in, and the amounts owing from and indebtedness to, the subsidiaries and fellow subsidiaries.

<table>
<tr><td></td><td>
Paragraphs 18(4), 18(5) and 24(b) of the Schedule require disclosure of the following information where group accounts are not submitted:
a. the reasons why subsidiaries are not dealt with in group accounts;
b. the net aggregate amount attributable to the holding company of the profits less losses of such subsidiaries, dealt with this year and not dealt with, in the company's accounts, both for:
– the financial years of subsidiaries ending with or during the financial year of the company; and
– their previous financial years since acquisition; and
c. any material qualifications in the auditors' report and any note to the accounts disclosing a matter which, in the absence of such disclosure, would have been referred to in an audit report qualification, to the extent that the matter is not referred to in the holding company's audit report and is material from the point of view of its members.
Paragraphs 18(6) and 25 of the Schedule requires disclosure of the following information where group accounts are not submitted and the subsidiaries' financial year did not end with that of the company:
a. the reasons why the company's directors consider that the subsidiaries' financial years should not end with that of the company; and
b. the dates on which the subsidiaries' financial years ending last before that of the company respectively ended or the earliest and latest of those dates.
The Companies (Amendment) Ordinance 2005, in general, redefines the definition of "subsidiary" for the purpose of preparing group accounts to include a subsidiary undertaking as defined in the new Schedule 23 and includes a true and fair overriding provision. In essence, this would enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts.
</td></tr>
<tr><td>17</td><td>HKAS 28 Investment in Associates</td></tr>
<tr><td></td><td>
Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed subject to sections 129(3) to 129(5) of the CO:
a. the name of that other company;
b. its country of incorporation; and
c. the identity of the class and the proportion of the nominal value of the issued share of that class represented by the shares held.
In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of the company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful.
</td></tr>
</table>

	Paragraph 9(1)(a)† of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(3)† of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.
18	**HKAS 31 *Interests in Joint Ventures***
	Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed: a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of a company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful. Paragraph 9(1)(a)† of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(3)† of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.

19	**HKAS 36** ***Impairment of Assets***
	Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This covers the definition of "impairment loss" in paragraph 5 of HKAS 36. Paragraph 4(1)† of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 7*† of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.
20	**HKAS 37** ***Provisions, Contingent Liabilities And Contingent Assets***
	Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This definition is wider in scope than the definition in HKAS 37. Paragraph 4(1)† of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 6*† of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings. Paragraph 7*† of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions. Paragraph 13(1)(f)*† of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if it is material. Paragraph 12(4)† of the Schedule requires the disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(5)† of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.

21	**HKAS 38 *Intangible Assets***
	Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balances on patents and trademarks either as separate items or aggregated with any unamortised balance of goodwill. This requirement applies whether the patents and trademarks are carried as balances in the books or can only be ascertained from contracts or documents. The amortisation treatment involves the allocation of the depreciable amount of an intangible asset over the best estimate of its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore, the disclosure requirements of paragraph 13(1)(a)*† of the Schedule apply and the amount charged to revenue for amortisation of an intangible asset should be disclosed.
22	**HKAS 40 *Investment Property***
	Paragraph 5*† of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value. Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured. Paragraph 12(4)† of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the name of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Paragraph 12(8)*† of the Schedule requires disclosure of the aggregate amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to: a. land in Hong Kong held on long lease, medium-term lease and short lease respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets. Paragraph 13(1)(h)† of the Schedule requires disclosure of rental income from land and buildings (after deduction of ground rents, rates and other out-goings) if a substantive part of the company's revenue for the financial year consists of such rents.

23	**HKAS 41 *Agriculture***
	Paragraph 12(5)† of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material. Paragraph 12(7)*† of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period: a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. Under paragraph 13(1)(a)*† of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.
24	**HKFRS 7 *Financial Instruments: Disclosures***
	Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed: a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. Paragraph 4(2)† of the Schedule requires fixed assets, current assets and assets that are neither fixed nor current to be separately identified. Paragraph 5*† of the Schedule requires that where the directors' valuation of unlisted investments is not given and such investments are classified as fixed assets, the following should be stated: a. cost or valuation as shown in the company's books; and b. any amount provided or written off for diminution in value. Paragraph 9(1)(a) of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments. Paragraph 9(1)(d) requires disclosure of the aggregate amount of banks loans and overdrafts and the aggregate amount of loans (other than bank loans and overdrafts) repayable wholly in part more than five years from the balance sheet date. Paragraph 9(3)† of the Schedule requires that the carrying amounts of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong. Paragraph 9(4) of the Schedule requires disclosure of the terms of repayments and the rate of interests for each loan, other than a bank loan or an overdraft, specified in paragraph 9(1)(d) of the Schedule

	Paragraph 12(10) of the Schedule requires that, if in the opinion of the directors, the realisable value of any current assets is less than the balance sheet value, a statement of that fact should be included in the accounts. Paragraph 12(11)*† of the Schedule requires disclosure of the aggregate market value of listed investments where it differs from the carrying amounts in the balance sheet. If the aggregate market value is higher than the Stock Exchange value, the Stock Exchange value should also be disclosed. Paragraph 13(1)(a)*† of the Schedule requires disclosure of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets. Paragraph 13(1)(g)*† of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.

Notes: * These requirements do not apply to banking companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

† These requirements do not apply to insurance companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

Φ This revised S161B of the CO came into operation for relevant transactions entered into by the company after 13 February 2004.

Appendix D

Amendments resulting from other HKFRSs

The following sets out amendments required for this Standard resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs, new text is underlined and deleted text is struck through.

HKFRS 9 *Financial Instruments* (issued in November 2009) – effective for annual periods beginning on or after 1 January 2013

In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 82, 93 and 95 are amended and paragraph 139E is added as follows:

7 ...

Other comprehensive income **comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other HKFRSs.**

The components of other comprehensive income include:

(a) ...

(d) gains and losses ~~on remeasuring available-for-sale financial assets (see HKAS 39 *Financial Instruments: Recognition and Measurement*)~~ <u>from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.4.4 of HKFRS 9 *Financial Instruments*</u>;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see HKAS 39).

68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial assets <u>that meet the definition of</u> ~~classified as~~ held for trading in ~~accordance with~~ HKAS 39) and the current portion of non-current financial assets.

82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

(a) revenue;

<u>**(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;**</u>

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

<u>**(ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in HKFRS 9);**</u>

(d) ...

93 Other HKFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other

comprehensive income in the period that the adjustment is reclassified to profit or loss. ~~For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period.~~ These amounts may have been recognised in other comprehensive income …

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see HKAS 21)~~, on derecognition of available-for-sale financial assets (see HKAS 39)~~ and when a hedged forecast transaction affects profit or loss (see paragraph 100 of HKAS 39 in relation to cash flow hedges).

139E HKFRS 9, issued in November 2009, amended the definition of 'other comprehensive income' in paragraph 7 and paragraphs 68, 82, 93 and 95. An entity shall apply those amendments when it applies HKFRS 9.

BASIS FOR CONCLUSIONS ON HKAS 1 *PRESENTATION OF FINANCIAL STATEMENTS*

This Basis for Conclusions accompanies, but is not part of, HKAS 1.

HKAS 1 is based on IAS 1 *Presentation of Financial statements*. In approving HKAS 1, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 1. Accordingly, there are no significant differences between HKAS 1 and IAS 1. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 1 referred to below generally correspond with those in HKAS 1.

CONTENTS

Basis for Conclusions on IAS 1 *Presentation of Financial Statements*

The International Accounting Standards Board revised IAS 1 Presentation of Financial Statements *in 2007 as part of its project on financial statement presentation. It was not the Board's intention to reconsider as part of that project all the requirements in IAS 1.*

For convenience, the Board has incorporated into this Basis for Conclusions relevant material from the Basis for Conclusions on the revision of IAS 1 in 2003 and its amendment in 2005. Paragraphs have been renumbered and reorganised as necessary to reflect the new structure of the Standard.

Introduction

BC1 The International Accounting Standards Committee (IASC) issued the first version of IAS 1 *Disclosure of Accounting Policies* in 1975. It was reformatted in 1994 and superseded in 1997 by IAS 1 *Presentation of Financial Statements*.* In 2003 the International Accounting Standards Board revised IAS 1 as part of the Improvements project and in 2005 the Board amended it as a consequence of issuing IFRS 7 *Financial Instruments: Disclosures*. In 2007 the Board revised IAS 1 again as part of its project on financial statement presentation. This Basis for Conclusions summarises the Board's considerations in reaching its conclusions on revising IAS 1 in 2003, on amending it in 2005 and revising it in 2007. It includes reasons for accepting some approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

The Improvements project—revision of IAS 1 (2003)

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of standards, including IAS 1. The project was undertaken in the light of queries and criticisms raised in relation to the standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within standards, to deal with some convergence issues and to make other improvements. The Board's intention was not to reconsider the fundamental approach to the presentation of financial statements established by IAS 1 in 1997.

BC3 In May 2002 the Board published an exposure draft of proposed *Improvements to International Accounting Standards*, which contained proposals to revise IAS 1. The Board received more than 160 comment letters. After considering the responses the Board issued in 2003 a revised version of IAS 1. In its revision the Board's main objectives were:

(a) to provide a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation;

(b) to base the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date;

(c) to prohibit the presentation of items of income and expense as 'extraordinary items';

(d) to specify disclosures about the judgements that management has made in the process of applying the entity's accounting policies, apart from those involving estimations, and that have the most significant effect on the amounts recognised in the financial statements; and

* IASC did not publish a Basis for Conclusions.

(e) to specify disclosures about sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

BC4 The following sections summarise the Board's considerations in reaching its conclusions as part of its Improvements project in 2003:

(a) departures from IFRSs (paragraphs BC23–BC30)

(b) criterion for exemption from requirements (paragraphs BC34–BC36)

(c) effect of events after the reporting period on the classification of liabilities (paragraphs BC39–BC48)

(d) results of operating activities (paragraphs BC55 and BC56)

(e) minority interest (paragraph BC59)*

(f) extraordinary items (paragraphs BC60–BC64)

(g) disclosure of the judgements management has made in the process of applying the entity's accounting policies (paragraphs BC77 and BC78)

(h) disclosure of major sources of estimation uncertainty (paragraphs BC79–BC84).

Amendment to IAS 1—*Capital Disclosures* (2005)

BC5 In August 2005 the Board issued an Amendment to IAS 1—*Capital Disclosures*. The amendment added to IAS 1 requirements for disclosure of:

(a) the entity's objectives, policies and processes for managing capital.

(b) quantitative data about what the entity regards as capital.

(c) whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

BC6 The following sections summarise the Board's considerations in reaching its conclusions as part of its amendment to IAS 1 in 2005:

(a) disclosures about capital (paragraphs BC85–BC89)

(b) objectives, policies and processes for managing capital (paragraphs BC90 and BC91)

(c) externally imposed capital requirements (paragraphs BC92–BC97)

(d) internal capital targets (paragraphs BC98–BC100).

Amendments to IAS 32 and IAS 1—*Puttable Financial Instruments and Obligations Arising on Liquidation* (2008)

BC6A In July 2006 the Board published an exposure draft of proposed amendments to IAS 32 and IAS 1 relating to the classification of puttable instruments and instruments with obligations arising only on liquidation. The Board subsequently confirmed the proposals and in February 2008 issued an amendment that now forms part of IAS 1.

* In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended 'minority interest' to 'non-controlling interests'.

Financial statement presentation—Joint project

BC7 In September 2001 the Board added to its agenda the performance reporting project (in March 2006 renamed the 'financial statement presentation project'). The objective of the project was to enhance the usefulness of information presented in the income statement. The Board developed a possible new model for reporting income and expenses and conducted preliminary testing. Similarly, in the United States, the Financial Accounting Standards Board (FASB) added a project on performance reporting to its agenda in October 2001, developed its model and conducted preliminary testing. Constituents raised concerns about both models and about the fact that they were different.

BC8 In April 2004 the Board and the FASB decided to work on financial statement presentation as a joint project. They agreed that the project should address presentation and display not only in the income statement, but also in the other statements that, together with the income statement, would constitute a complete set of financial statements—the balance sheet, the statement of changes in equity, and the cash flow statement. The Board decided to approach the project in two phases. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented. Phase B would be undertaken jointly with the FASB and would address more fundamental issues relating to presentation and display of information in the financial statements, including:

(a) consistent principles for aggregating information in each financial statement.

(b) the totals and subtotals that should be reported in each financial statement.

(c) whether components of other comprehensive income should be reclassified to profit or loss and, if so, the characteristics of the transactions and events that should be reclassified and when reclassification should be made.

(d) whether the direct or the indirect method of presenting operating cash flows provides more useful information.

BC9 In March 2006, as a result of its work in phase A, the Board published an exposure draft of proposed amendments to IAS 1—*A Revised Presentation*. The Board received more than 130 comment letters. The exposure draft proposed amendments that affected the presentation of owner changes in equity and the presentation of comprehensive income, but did not propose to change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. It also proposed to bring IAS 1 largely into line with the US standard—SFAS 130 *Reporting Comprehensive Income*. After considering the responses to the exposure draft the Board issued a revised version of IAS 1. The FASB decided to consider phases A and B issues together, and therefore did not publish an exposure draft on phase A.

BC10 The following sections summarise the Board's considerations in reaching its conclusions as part of its revision in 2007:

(a) general purpose financial statements (paragraphs BC11–BC13)

(b) titles of financial statements (paragraphs BC14–BC21)

(c) equal prominence (paragraph BC22)

(d) a statement of financial position as at the beginning of the earliest comparative period (paragraphs BC31 and BC32)

(e) IAS 34 *Interim Financial Reporting* (paragraph BC33)

(f) reporting owner and non-owner changes in equity (paragraphs BC37 and BC38)

(g) reporting comprehensive income (paragraphs BC49–BC54)

(h) subtotal for profit or loss (paragraphs BC57 and BC58)

(i) other comprehensive income-related tax effects (paragraphs BC65– BC68)

(j) reclassification adjustments (paragraphs BC69–BC73)

(k) effects of retrospective application or retrospective restatement (paragraph BC74)

(l) presentation of dividends (paragraph BC75)

(m) IAS 7 *Cash Flow Statements* (paragraph BC76)

(n) presentation of measures per share (paragraphs BC101–BC104)

(o) effective date and transition (paragraph BC105)

(p) differences from SFAS 130 (paragraph BC106).

Definitions

General purpose financial statements (paragraph 7)

BC11 The exposure draft of 2006 proposed a change to the explanatory paragraph of what 'general purpose financial statements' include, in order to produce a more generic definition of a set of financial statements. Paragraph 7 of the exposure draft stated:

> General purpose financial statements include those that are presented separately or within other *public* documents such as a *regulatory filing* or report to shareholders. [emphasis added]

BC12 Respondents expressed concern about the proposed change. They argued that it could be understood as defining as general purpose financial statements any financial statement or set of financial statements filed with a regulator and could capture documents other than annual reports and prospectuses. They saw this change as expanding the scope of IAS 1 to documents that previously would not have contained all of the disclosures required by IAS 1. Respondents pointed out that the change would particularly affect some entities (such as small private companies and subsidiaries of public companies with no external users of financial reports) that are required by law to place their financial statements on a public file.

BC13 The Board acknowledged that in some countries the law requires entities, whether public or private, to report to regulatory authorities and include information in those reports that could be beyond the scope of IAS 1. Because the Board did not intend to extend the definition of general purpose financial statements, it decided to eliminate the explanatory paragraph of what 'general purpose financial statements' include, while retaining the definition of 'general purpose financial statements'.

Financial statements

Complete set of financial statements

Titles of financial statements (paragraph 10)

BC14 The exposure draft of 2006 proposed changes to the titles of some of the financial statements—from 'balance sheet' to 'statement of financial position', from 'income statement' to 'statement of profit or loss' and from 'cash flow statement' to 'statement of cash flows'. In addition, the exposure draft proposed a 'statement of recognised income and expense' and that all owner changes in equity should be included in a 'statement of changes in equity'. The Board did not propose to make any of these changes of nomenclature mandatory.

BC15 Many respondents opposed the proposed changes, pointing out that the existing titles had a long tradition and were well understood. However, the Board reaffirmed its view that the proposed new titles better reflect the function of each financial statement, and pointed out that an entity could choose to use other titles in its financial report.

BC16 The Board reaffirmed its conclusion that the title 'statement of financial position' not only better reflects the function of the statement but is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which contains several references to 'financial position'. Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity; paragraph 19 of the *Framework* states that information about financial position is primarily provided in a balance sheet. In the Board's view, the title 'balance sheet' simply reflects that double entry bookkeeping requires debits to equal credits. It does not identify the content or purpose of the statement. The Board also noted that 'financial position' is a well-known and accepted term, as it has been used in auditors' opinions internationally for more than 20 years to describe what the 'balance sheet' presents. The Board decided that aligning the statement's title with its content and the opinion rendered by the auditor would help the users of financial statements.

BC17 As to the other statements, respondents suggested that renaming the balance sheet the 'statement of financial position' implied that the 'cash flow statement' and the 'statement of recognised income and expense' do not also reflect an entity's financial position. The Board observed that although the latter statements reflect changes in an entity's financial position, neither can be called a 'statement of changes in financial position', as this would not depict their true function and objective (ie to present cash flows and performance, respectively). The Board acknowledged that the titles 'income statement' and 'statement of profit or loss' are similar in meaning and could be used interchangeably, and decided to retain the title 'income statement' as this is more commonly used.

BC18 The title of the proposed new statement, the 'statement of recognised income and expense', reflects a broader content than the former 'income statement'. The statement encompasses both income and expenses recognised in profit or loss and income and expenses recognised outside profit or loss.

BC19 Many respondents opposed the title 'statement of recognised income and expense', objecting particularly to the use of the term 'recognised'. The Board acknowledged that the term 'recognised' could also be used to describe the content of other primary statements as 'recognition', explained in paragraph 82 of the *Framework*, is 'the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph 83.' Many respondents suggested the term 'statement of comprehensive income' instead.

BC20 In response to respondents' concerns and to converge with SFAS 130, the Board decided to rename the new statement a 'statement of comprehensive income'. The term 'comprehensive income' is not defined in the *Framework* but is used in IAS 1 to describe the change in equity of an entity during a period from transactions, events and circumstances other than those resulting from transactions with owners in their capacity as owners. Although the term 'comprehensive income' is used to describe the aggregate of all components of comprehensive income, including profit or loss, the term 'other comprehensive income' refers to income and expenses that under IFRSs are included in comprehensive income but excluded from profit or loss.

BC21 In finalising its revision, the Board confirmed that the titles of financial statements used in this Standard would not be mandatory. The titles will be used in future IFRSs but are not required to be used by entities in their financial statements. Some respondents to the exposure draft expressed concern that non-mandatory titles will result in confusion. However, the Board believes that making use of the titles non-mandatory will allow time for entities to implement changes gradually as the new titles become more familiar.

Equal prominence (paragraphs 11 and 12)

BC22 The Board noted that the financial performance of an entity is not assessed by reference to a single financial statement or a single measure within a financial statement. The Board believes that the financial performance of an entity can be assessed only after all aspects of the financial statements are taken into account and understood in their entirety. Accordingly, the Board decided that in order to help users of the financial statements to understand the financial performance of an entity comprehensively, all financial statements within the complete set of financial statements should be presented with equal prominence.

Departures from IFRSs (paragraphs 19–24)

BC23 IAS 1 (as issued in 1997) permitted an entity to depart from a requirement in a Standard 'in the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation' (paragraph 17, now paragraph 19). When such a departure occurred, paragraph 18 (now paragraph 20) required extensive disclosure of the facts and circumstances surrounding the departure and the treatment adopted.

BC24 The Board decided to clarify in paragraph 15 of the Standard that for financial statements to present fairly the financial position, financial performance and cash flows of an entity, they must represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Framework*.

BC25 The Board decided to limit the occasions on which an entity should depart from a requirement in an IFRS to the extremely rare circumstances in which management concludes that compliance with the requirement would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*. Guidance on this criterion states that an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events or conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements.

BC26 These amendments provide a framework within which an entity assesses how to present fairly the effects of transactions, other events and conditions, and whether the result of complying with a requirement in an IFRS would be so misleading that it would not give a fair presentation.

BC27 The Board considered whether IAS 1 should be silent on departures from IFRSs. The Board decided against making that change, because it would remove the Board's capability to specify the criteria under which departures from IFRSs should occur.

BC28 Departing from a requirement in an IFRS when considered necessary to achieve a fair presentation would conflict with the regulatory framework in some jurisdictions. The revised IAS 1 takes into account the existence of different regulatory requirements. It requires that when an entity's circumstances satisfy the criterion described in paragraph BC25 for departure from a requirement in an IFRS, the entity should proceed as follows:

(a) When the relevant regulatory framework requires—or otherwise does not prohibit—a departure from the requirement, the entity should make that departure and the disclosures set out in paragraph 20.

(b) When the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by making the disclosures set out in paragraph 23.

This amendment enables entities to comply with the requirements of IAS 1 when the relevant regulatory framework prohibits departures from accounting standards, while retaining the principle that entities should, to the maximum extent possible, ensure that financial statements provide a fair presentation.

BC29 After considering the comments received on the exposure draft of 2002, the Board added to IAS 1 a requirement in paragraph 21 to disclose the effect of a departure from a requirement of an IFRS in a prior period on the current period's financial statements. Without this disclosure, users of the entity's financial statements could be unaware of the continuing effects of prior period departures.

BC30 In view of the strict criteria for departure from a requirement in an IFRS, IAS 1 includes a rebuttable presumption that if other entities in similar circumstances comply with the requirement, the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Comparative information

A statement of financial position as at the beginning of the earliest comparative period (paragraph 39)

BC31 The exposure draft of 2006 proposed that a statement of financial position as at the beginning of the earliest comparative period should be presented as part of a complete set of financial statements. This statement would provide a basis for investors and creditors to evaluate information about the entity's performance during the period. However, many respondents expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly.

BC32 By adding a statement of financial position as at the beginning of the earliest comparative period, the exposure draft proposed that an entity should present three statements of financial position and two of each of the other statements. Considering that financial statements from prior years are readily available for financial analysis, the Board decided to require only two statements of financial position, except when the financial statements have been affected by retrospective application or retrospective restatement, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or when a reclassification has been made. In those circumstances three statements of financial position are required.

IAS 34 *Interim Financial Reporting*

BC33 The Board decided not to reflect in paragraph 8 of IAS 34 (ie the minimum components of an interim financial report) its decision to require the inclusion of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements. IAS 34 has a year-to-date approach to interim reporting and does not replicate the requirements of IAS 1 in terms of comparative information.

Criterion for exemption from requirements (paragraphs 41–44)

BC34 IAS 1 as issued in 1997 specified that when the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless it is impracticable to do so. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

BC35 The exposure draft of 2002 proposed a different criterion for exemption from particular requirements. For the reclassification of comparative amounts, and its proposed new requirement to disclose key assumptions and other sources of estimation uncertainty at the end of the reporting period (discussed in paragraphs BC79–BC84), the exposure draft proposed that the criterion for exemption should be that applying the requirements would require undue cost or effort.

BC36 In the light of respondents' comments on the exposure draft, the Board decided that an exemption based on management's assessment of undue cost or effort was too subjective to be applied consistently by different entities. Moreover, balancing costs and benefits was a task for the Board when it sets accounting requirements rather than for entities when they apply them. Therefore, the Board retained the 'impracticability' criterion for exemption. This affects the exemptions now set out in paragraphs 41–43 and 131 of IAS 1. Impracticability is the only basis on which IFRSs allow specific exemptions from applying particular requirements when the effect of applying them is material*.

Reporting owner and non-owner changes in equity

BC37 The exposure draft of 2006 proposed to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners (ie all owner changes in equity) from other changes in equity (ie non-owner changes in equity). All owner changes in equity would be presented in the statement of changes in equity, separately from non-owner changes in equity.

BC38 Most respondents welcomed this proposal and saw this change as an improvement of financial reporting, by increasing the transparency of those items recognised in equity that are not reported as part of profit or loss. However, some respondents pointed out that the terms 'owner' and 'non-owner' were not defined in the exposure draft, the *Framework* or elsewhere in IFRSs, although they are extensively used in national accounting standards. They also noted that the terms 'owner' and 'equity holder' were used interchangeably in the exposure draft. The Board decided to adopt the term 'owner' and use it throughout IAS 1 to converge with SFAS 130, which uses the term in the definition of 'comprehensive income'.

Statement of financial position

<u>Current assets and current liabilities (paragraphs 68 and 71)</u>

<u>BC38A As part of its improvements project in 2007, the Board identified inconsistent guidance regarding the current/non-current classification of derivatives. Some might read the guidance included in paragraph 71 as implying that financial liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are always required to be presented as current.</u>

* In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

BC38B The Board expects the criteria set out in paragraph 69 to be used to assess whether a financial liability should be presented as current or non-current. The 'held for trading' category in paragraph 9 of IAS 39 is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.

BC38C The Board reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is not held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non-current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities.

BC38D Therefore, the Board decided to remove the identified inconsistency by amending the examples of current liabilities in paragraph 71. The Board also amended paragraph 68 in respect of current assets to remove a similar inconsistency.

Classification of the liability component of a convertible instrument (paragraph 69)

BC38E As part of its improvements project in 2007, the Board considered the classification of the liability component of a convertible instrument as current or non-current. Paragraph 69(d) of IAS 1 states that when an entity does not have an unconditional right to defer settlement of a liability for at least twelve months after the reporting period, the liability should be classified as current. According to the *Framework*, conversion of a liability into equity is a form of settlement.

BC38F The application of these requirements means that if the conversion option can be exercised by the holder at any time, the liability component would be classified as current. This classification would be required even if the entity would not be required to settle unconverted instruments with cash or other assets for more than twelve months after the reporting period.

BC38G IAS 1 and the *Framework* state that information about the liquidity and solvency positions of an entity is useful to users. The terms 'liquidity' and 'solvency' are associated with the availability of cash to an entity. Issuing equity does not result in an outflow of cash or other assets of the entity.

BC38H The Board concluded that classifying the liability on the basis of the requirements to transfer cash or other assets rather than on settlement better reflects the liquidity and solvency position of an entity, and therefore it decided to amend IAS 1 accordingly.

BC38I The Board discussed the comments received in response to its exposure draft of proposed *Improvements to IFRSs* published in 2007 and noted that some respondents were concerned that the proposal in the exposure draft would apply to all liabilities, not just those that are components of convertible instruments as originally contemplated in the exposure draft. Consequently, in *Improvements to IFRSs* issued in April 2009, the Board amended the proposed wording to clarify that the amendment applies only to the classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

Effect of events after the reporting period on the classification of liabilities (paragraphs 69–76)

BC39 Paragraph 63 of IAS 1 (as issued in 1997) included the following:

> An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:
>
> (a) the original term was for a period of more than twelve months;
>
> (b) the enterprise intends to refinance the obligation on a long-term basis; and
>
> (c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue.

BC40 Paragraph 65 stated:

> Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, the liability is classified as non-current only when:
>
> (a) the lender has agreed, prior to the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach; and
>
> (b) it is not probable that further breaches will occur within twelve months of the balance sheet date.

BC41 The Board considered these requirements and concluded that refinancing, or the receipt of a waiver of the lender's right to demand payment, that occurs after the reporting period should not be taken into account in the classification of a liability.

BC42 Therefore, the exposure draft of 2002 proposed:

(a) to amend paragraph 63 to specify that a long-term financial liability due to be settled within twelve months of the balance sheet date should not be classified as a non-current liability because an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. This amendment would not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.

(b) to amend paragraph 65 to specify that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date even if the lender has agreed after the balance sheet date, and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. However, if the lender has agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during which the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

    (i) the entity rectifies the breach within the period of grace; or

    (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BC43 Some respondents disagreed with these proposals. They advocated classifying a liability as current or non-current according to whether it is expected to use current assets of the entity, rather than strictly on the basis of its date of maturity and whether it is callable at the end of the reporting period. In their view, this would provide more relevant information about the liability's future effect on the timing of the entity's resource flows.

BC44 However, the Board decided that the following arguments for changing paragraphs 63 and 65 were more persuasive:

(a) refinancing a liability after the balance sheet date does not affect the entity's liquidity and solvency *at the balance sheet date*, the reporting of which should reflect contractual arrangements in force on that date. Therefore, it is a non-adjusting event in accordance with IAS 10 *Events after the Balance Sheet Date* and should not affect the presentation of the entity's balance sheet.

(b) it is illogical to adopt a criterion that 'non-current' classification of short-term obligations expected to be rolled over for at least twelve months after the balance sheet date depends on whether the rollover is at the discretion of the entity, and then to provide an exception based on refinancing occurring after the balance sheet date.

(c) in the circumstances set out in paragraph 65, unless the lender has waived its right to demand immediate repayment or granted a period of grace within which the entity may rectify the breach of the loan agreement, the financial condition of the entity at the balance sheet date was that the entity did not hold an absolute right to defer repayment, based on the terms of the loan agreement. The granting of a waiver or a period of grace changes the terms of the loan agreement. Therefore, an entity's receipt from the lender, after the balance sheet date, of a waiver or a period of grace of at least twelve months does not change the nature of the liability to non-current until it occurs.

BC45 IAS 1 now includes the amendments proposed in 2002, with one change. The change relates to the classification of a long-term loan when, at the end of the reporting period, the lender has provided a period of grace within which a breach of the loan agreement can be rectified, and during which period the lender cannot demand immediate repayment of the loan.

BC46 The exposure draft proposed that such a loan should be classified as non-current if it is due for settlement, without the breach, at least twelve months after the balance sheet date and:

(a) the entity rectifies the breach within the period of grace; or

(b) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified.

BC47 After considering respondents' comments, the Board decided that the occurrence or probability of a rectification of a breach after the reporting period is irrelevant to the conditions existing at the end of the reporting period. The revised IAS 1 requires that, for the loan to be classified as non-current, the period of grace must end at least twelve months after the reporting period (see paragraph 75). Therefore, the conditions (a) and (b) in paragraph BC46 are redundant.

BC48 The Board considered arguments that if a period of grace to remedy a breach of a long-term loan agreement is provided before the end of the reporting period, the loan should be classified as non-current regardless of the length of the period of grace. These arguments are based on the view that, at the end of the reporting period, the lender does not have an unconditional legal right to demand repayment before the original maturity date (ie if the entity remedies the breach during the period of grace, it is entitled to repay the loan on the original maturity date). However, the Board concluded that an entity should classify a loan as non-current only if it has an unconditional right to defer settlement of the loan for at least twelve months after the reporting period. This criterion focuses on the legal rights of the entity, rather than those of the lender.

Statement of comprehensive income

Reporting comprehensive income (paragraph 81)

BC49 The exposure draft of 2006 proposed that all non-owner changes in equity should be presented in a single statement or in two statements. In a single-statement presentation, all items of income and expense are presented together. In a two-statement presentation, the first statement ('income statement') presents income and expenses recognised in profit or loss and the second statement ('statement of comprehensive income') begins with profit or loss and presents, in addition, items of income and expense that IFRSs require or permit to be recognised outside profit or loss. Such items include, for example, translation differences related to foreign operations and gains or losses on available-for-sale financial assets. The statement of comprehensive income does not include transactions with owners in their capacity as owners. Such transactions are presented in the statement of changes in equity.

BC50 Respondents to the exposure draft had mixed views about whether the Board should permit a choice of displaying non-owner changes in equity in one statement or two statements. Many respondents agreed with the Board's proposal to maintain the two-statement approach and the single-statement approach as alternatives and a few urged the Board to mandate one of them. However, most respondents preferred the two-statement approach because it distinguishes profit or loss and total comprehensive income; they believe that with the two-statement approach, the 'income statement' remains a primary financial statement. Respondents supported the presentation of two separate statements as a transition measure until the Board develops principles to determine the criteria for inclusion of items in profit or loss or in other comprehensive income.

BC51 The exposure draft of 2006 expressed the Board's preference for a single statement of all non-owner changes in equity. The Board provided several reasons for this preference. All items of non-owner changes in equity meet the definitions of income and expenses in the *Framework*. The *Framework* does not define profit or loss, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss. Therefore, the Board decided that it was conceptually correct for an entity to present all non-owner changes in equity (ie all income and expenses recognised in a period) in a single statement because there are no clear principles or common characteristics that can be used to separate income and expenses into two statements.

BC52 However, in the Board's discussions with interested parties, it was clear that many were strongly opposed to the concept of a single statement. They argued that there would be undue focus on the bottom line of the single statement. In addition, many argued that it was premature for the Board to conclude that presentation of income and expense in a single statement was an improvement in financial reporting without also addressing the other aspects of presentation and display, namely deciding what categories and line items should be presented in a statement of recognised income and expense.

BC53 In the light of these views, although it preferred a single statement, the Board decided that an entity should have the choice of presenting all income and expenses recognised in a period in one statement or in two statements. An entity is prohibited from presenting components of income and expense (ie non-owner changes in equity) in the statement of changes in equity.

BC54 Many respondents disagreed with the Board's preference and thought that a decision at this stage would be premature. In their view the decision about a single-statement or two-statement approach should be subject to further consideration. They urged the Board to address other aspects of presentation and display, namely deciding which categories and line items should be presented in a 'statement of comprehensive income'. The Board reaffirmed its reasons for preferring a single-statement approach and agreed to address other aspects of display and presentation in the next stage of the project.

Results of operating activities

BC55 IAS 1 omits the requirement in the 1997 version to disclose the results of operating activities as a line item in the income statement. 'Operating activities' are not defined in IAS 1, and the Board decided not to require disclosure of an undefined item.

BC56 The Board recognises that an entity may elect to disclose the results of operating activities, or a similar line item, even though this term is not defined. In such cases, the Board notes that the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, it would be inappropriate to exclude items clearly related to operations (such as inventory write-downs and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.

Subtotal for profit or loss (paragraph 82)

BC57 As revised, IAS 1 requires a subtotal for profit or loss in the statement of comprehensive income. If an entity chooses to present comprehensive income by using two statements, it should begin the second statement with profit or loss—the bottom line of the first statement (the 'income statement')—and display the components of other comprehensive income immediately after that. The Board concluded that this is the best way to achieve the objective of equal prominence (see paragraph BC22) for the presentation of income and expenses. An entity that chooses to display comprehensive income in one statement should include profit or loss as a subtotal within that statement.

BC58 The Board acknowledged that the items included in profit or loss do not possess any unique characteristics that allow them to be distinguished from items that are included in other comprehensive income. However, the Board and its predecessor have required some items to be recognized outside profit or loss. The Board will deliberate in the next stage of the project how items of income and expense should be presented in the statement of comprehensive income.

Minority interest (paragraph 83)*

BC59 IAS 1 requires the 'profit or loss attributable to minority interest' and 'profit or loss attributable to owners of the parent' each to be presented in the income statement in accordance with paragraph 83. These amounts are to be presented as allocations of profit or loss, not as items of income or expense. A similar requirement has been added for the statement of changes in equity, in paragraph 106(a). These changes are consistent with IAS 27 *Consolidated and Separate Financial Statements*, which requires that in a consolidated balance sheet (now called 'statement of financial position'), minority interest is presented within equity because it does not meet the definition of a liability in the *Framework*.

* In January 2008 the IASB issued an amended IAS 27 *Consolidated and Separate Financial Statements*, which amended 'minority interest' to 'non-controlling interests'.

Extraordinary items (paragraph 87)

BC60 IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (issued in 1993) required extraordinary items to be disclosed in the income statement separately from the profit or loss from ordinary activities. That standard defined 'extraordinary items' as 'income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly'.

BC61 In 2002, the Board decided to eliminate the concept of extraordinary items from IAS 8 and to prohibit the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes. Therefore, in accordance with IAS 1, no items of income and expense are to be presented as arising from outside the entity's ordinary activities.

BC62 Some respondents to the exposure draft of 2002 argued that extraordinary items should be presented in a separate component of the income statement because they are clearly distinct from all of the other items of income and expense, and because such presentation highlights to users of financial statements the items of income and expense to which the least attention should be given when predicting an entity's future performance.

BC63 The Board decided that items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement. Items currently classified as 'extraordinary' are only a subset of the items of income and expense that may warrant disclosure to assist users in predicting an entity's future performance.

BC64 Eliminating the category of extraordinary items eliminates the need for arbitrary segregation of the effects of related external events—some recurring and others not—on the profit or loss of an entity for a period. For example, arbitrary allocations would have been necessary to estimate the financial effect of an earthquake on an entity's profit or loss if it occurs during a major cyclical downturn in economic activity. In addition, paragraph 97 of IAS 1 requires disclosure of the nature and amount of material items of income and expense.

Other comprehensive income—related tax effects (paragraphs 90 and 91)

BC65 The exposure draft of 2006 proposed to allow components of 'other recognised income and expense' (now 'other comprehensive income') to be presented before tax effects ('gross presentation') or after their related tax effects ('net presentation'). The 'gross presentation' facilitated the traceability of other comprehensive income items to profit or loss, because items of profit or loss are generally displayed before tax. The 'net presentation' facilitated the identification of other comprehensive income Items in the equity section of the statement of financial position. A majority of respondents supported allowing both approaches. The Board reaffirmed its conclusion that components of other comprehensive income could be displayed either (a) net of related tax effects or (b) before related tax effects.

BC66 Regardless of whether a pre-tax or post-tax display was used, the exposure draft proposed to require disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income, in line with SFAS 130. Many respondents agreed in principle with this disclosure, because they agreed that it helped to improve the clarity and transparency of such information, particularly when components of other comprehensive income are taxed at rates different from those applied to profit or loss.

BC67 However, most respondents expressed concern about having to trace the tax effect for each one of the components of other comprehensive income. Several observed that the tax allocation process is arbitrary (eg it may involve the application of subjectively determined tax rates) and some pointed out that this information is not readily available for some industries (eg the insurance sector), where components of other comprehensive income are multiple and tax allocation involves a high degree of subjectivity. Others commented that they did not understand why tax should be attributed to components of comprehensive income line by line, when this is not a requirement for items in profit or loss.

BC68 The Board decided to maintain the disclosure of income tax expense or benefit allocated to each component of other comprehensive income. Users of financial statements often requested further information on tax amounts relating to components of other comprehensive income, because tax rates often differed from those applied to profit or loss. The Board also observed that an entity should have such tax information available and that a disclosure requirement would therefore not involve additional cost for preparers of financial statements.

Reclassification adjustments (paragraphs 92–96)

BC69 In the exposure draft of 2006, the Board proposed that an entity should separately present reclassification adjustments. These adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. The Board decided that adjustments necessary to avoid double-counting items in total comprehensive income when those items are reclassified to profit or loss in accordance with IFRSs. The Board's view was that separate presentation of reclassification adjustments is essential to inform users of those amounts that are included as income and expenses in different periods—as income or expenses in other comprehensive income in previous periods and as income or expenses in profit or loss in the current period. Without such information, users may find it difficult to assess the effect of reclassifications on profit or loss and to calculate the overall gain or loss associated with available-for-sale financial assets, cash flow hedges and on translation or disposal of foreign operations.

BC70 Most respondents agreed with the Board's decision and believe that the disclosure of reclassification adjustments is important to understanding how components recognised in profit or loss are related to other items recognised in equity in two different periods. However, some respondents suggested that the Board should use the term 'recycling', rather than 'reclassification' as the former term is more common. The Board concluded that both terms are similar in meaning, but decided to use the term 'reclassification adjustment' to converge with the terminology used in SFAS 130.

BC71 The exposure draft proposed to allow the presentation of reclassification adjustments in the statement of recognised income and expense (now 'statement of comprehensive income') or in the notes. Most respondents supported this approach.

BC72 Some respondents noted some inconsistencies in the definition of 'reclassification adjustments' in the exposure draft (now paragraphs 7 and 93 of IAS 1). Respondents suggested that the Board should expand the definition in paragraph 7 to include gains and losses recognised in current periods in addition to those recognised in earlier periods, to make the definition consistent with paragraph 93. They commented that, without clarification, there could be differences between interim and annual reporting, for reclassifications of items that arise in one interim period and reverse out in a different interim period within the same annual period.

BC73 The Board decided to align the definition of reclassification adjustments with SFAS 130 and include an additional reference to 'current periods' in paragraph 7.

Statement of changes in equity

Effects of retrospective application or retrospective restatement (paragraph 106(b))

BC74 Some respondents to the exposure draft of 2006 asked the Board to clarify whether the effects of retrospective application or retrospective restatement, as defined in IAS 8, should be regarded as non-owner changes in equity. The Board noted that IAS 1 specifies that these effects are included in the statement of changes in equity. However, the Board decided to clarify that the effects of retrospective application or retrospective restatement are not changes in equity in the period, but provide a reconciliation between the previous period's closing balance and the opening balance in the statement of changes in equity.

Presentation of dividends (paragraph 107)

BC75 The Board reaffirmed its conclusion to require the presentation of dividends in the statement of changes in equity or in the notes, because dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity. The Board concluded that an entity should not present dividends in the statement of comprehensive income because that statement presents non-owner changes in equity.

Statement of cash flows

IAS 7 *Cash Flow Statements* (paragraph 111)

BC76 The Board considered whether the operating section of an indirect method statement of cash flows should begin with total comprehensive income instead of profit or loss as is required by IAS 7 *Cash Flow Statements*. When components of other comprehensive income are non-cash items, they would become reconciling items in arriving at cash flows from operating activities and would add items to the statement of cash flows without adding information content. The Board concluded that an amendment to IAS 7 is not required; however, as mentioned in paragraph BC14 the Board decided to relabel this financial statement as 'statement of cash flows'.

Notes

Disclosure of the judgements that management has made in the process of applying the entity's accounting policies (paragraphs 122–124)

BC77 The revised IAS 1 requires disclosure of the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements (see paragraph 122). An example of these judgements is how management determines whether financial assets are held-to-maturity investments. The Board decided that disclosure of the most important of these judgements would enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

BC78 Comments received on the exposure draft of 2002 indicated that the purpose of the proposed disclosure was unclear. Accordingly, the Board amended the disclosure explicitly to exclude judgements involving estimations (which are the subject of the disclosure in paragraph 125) and added another four examples of the types of judgements disclosed (see paragraphs 123 and 124).

Disclosure of major sources of estimation uncertainty (paragraphs 125–133)

BC79 IAS 1 requires disclosure of the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. For those assets and liabilities, the proposed disclosures include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period (see paragraph 125).

BC80 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence of inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about items such as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. No matter how diligently an entity estimates the carrying amounts of assets and liabilities subject to significant estimation uncertainty at the end of the reporting period, the reporting of point estimates in the statement of financial position cannot provide information about the estimation uncertainties involved in measuring those assets and liabilities and the implications of those uncertainties for the period's profit or loss.

BC81 The *Framework* states that 'The economic decisions that are made by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents and of the timing and certainty of their generation.' The Board decided that disclosure of information about assumptions and other major sources of estimation uncertainty at the end of the reporting period enhances the relevance, reliability and understandability of the information reported in financial statements. These assumptions and other sources of estimation uncertainty relate to estimates that require management's most difficult, subjective or complex judgements. Therefore, disclosure in accordance with paragraph 125 of the revised IAS 1 would be made in respect of relatively few assets or liabilities (or classes of them).

BC82 The exposure draft of 2002 proposed the disclosure of some 'sources of measurement uncertainty'. In the light of comments received that the purpose of this disclosure was unclear, the Board decided:

(a) to amend the subject of that disclosure to 'sources of estimation uncertainty at the end of the reporting period', and

(b) to clarify in the revised Standard that the disclosure does not apply to assets and liabilities measured at fair value based on recently observed market prices (see paragraph 128 of IAS 1).

BC83 When assets and liabilities are measured at fair value on the basis of recently observed market prices, future changes in carrying amounts would not result from using estimates to measure the assets and liabilities at the end of the reporting period. Using observed market prices to measure assets or liabilities obviates the need for estimates at the end of the reporting period. The market prices properly reflect the fair values at the end of the reporting period, even though future market prices could be different. The objective of fair value measurement is to reflect fair value at the measurement date, not to predict a future value.

BC84 IAS 1 does not prescribe the particular form or detail of the disclosures. Circumstances differ from entity to entity, and the nature of estimation uncertainty at the end of the reporting period has many facets. IAS 1 limits the scope of the disclosures to items that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The longer the future period to which the disclosures relate, the greater the range of items that would qualify for disclosure, and the less specific are the disclosures that could be made about particular assets or liabilities. A period longer than the next financial year might obscure the most relevant information with other disclosures.

Disclosures about capital (paragraphs 134 and 135)

BC85 In July 2004 the Board published an exposure draft—ED 7 *Financial Instruments: Disclosures*. As part of that project, the Board considered whether it should require disclosures about capital.

BC86 The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events. The level of capital might also affect the entity's ability to pay dividends. Consequently, ED 7 proposed disclosures about capital.

BC87 In ED 7 the Board decided that it should not limit the requirements for disclosures about capital to entities that are subject to external capital requirements (eg regulatory capital requirements established by legislation or other regulation). The Board believes that information about capital is useful for all entities, as is evidenced by the fact that some entities set internal capital requirements and norms have been established for some industries. The Board noted that the capital disclosures are not intended to replace disclosures required by regulators. The Board also noted that the financial statements should not be regarded as a substitute for disclosures to regulators (which may not be available to all users) because the function of disclosures made to regulators may differ from the function of those to other users. Therefore, the Board decided that information about capital should be required of all entities because it is useful to users of general purpose financial statements. Accordingly, the Board did not distinguish between the requirements for regulated and non-regulated entities.

BC88 Some respondents to ED 7 questioned the relevance of the capital disclosures in an IFRS dealing with disclosures relating to financial instruments. The Board noted that an entity's capital does not relate solely to financial instruments and, thus, capital disclosures have more general relevance. Accordingly, the Board included these disclosures in IAS 1, rather than IFRS 7 *Financial Instruments: Disclosures*, the IFRS resulting from ED 7.

BC89 The Board also decided that an entity's decision to adopt the amendments to IAS 1 should be independent of the entity's decision to adopt IFRS 7. The Board noted that issuing a separate amendment facilitates separate adoption decisions.

Objectives, policies and processes for managing capital (paragraph 136)

BC90 The Board decided that disclosure about capital should be placed in the context of a discussion of the entity's objectives, policies and processes for managing capital. This is because the Board believes that such a discussion both communicates important information about the entity's capital strategy and provides the context for other disclosures.

BC91 The Board considered whether an entity can have a view of capital that differs from what IFRSs define as equity. The Board noted that, although for the purposes of this disclosure capital would often equate with equity as defined in IFRSs, it might also include or exclude some components. The Board also noted that this disclosure is intended to give entities the opportunity to describe how they view the components of capital they manage, if this is different from what IFRSs define as equity.

Externally imposed capital requirements (paragraph 136)

BC92 The Board considered whether it should require disclosure of any externally imposed capital requirements. Such a capital requirement could be:

(a) an industry-wide requirement with which all entities in the industry must comply; or

(b) an entity-specific requirement imposed on a particular entity by its prudential supervisor or other regulator.

BC93 The Board noted that some industries and countries have industry-wide capital requirements, and others do not. Thus, the Board concluded that it should not require disclosure of industry-wide requirements, or compliance with such requirements, because such disclosure would not lead to comparability between different entities or between similar entities in different countries.

BC94 The Board concluded that disclosure of the existence and level of entity-specific capital requirements is important information for users, because it informs them about the risk assessment of the regulator. Such disclosure improves transparency and market discipline.

BC95 However, the Board noted the following arguments against requiring disclosure of externally imposed entity-specific capital requirements.

(a) Users of financial statements might rely primarily on the regulator's assessment of solvency risk without making their own risk assessment.

(b) The focus of a regulator's risk assessment is for those whose interests the regulations are intended to protect (eg depositors or policyholders). This emphasis is different from that of a shareholder. Thus, it could be misleading to suggest that the regulator's risk assessment could, or should, be a substitute for independent analysis by investors.

(c) The disclosure of entity-specific capital requirements imposed by a regulator might undermine that regulator's ability to impose such requirements. For example, the information could cause depositors to withdraw funds, a prospect that might discourage regulators from imposing requirements. Furthermore, an entity's regulatory dialogue would become public, which might not be appropriate in all circumstances.

(d) Because different regulators have different tools available, for example formal requirements and moral suasion, a requirement to disclose entity-specific capital requirements could not be framed in a way that would lead to the provision of information that is comparable across entities.

(e) Disclosure of capital requirements (and hence, regulatory judgements) could hamper clear communication to the entity of the regulator's assessment by creating incentives to use moral suasion and other informal mechanisms.

(f) Disclosure requirements should not focus on entity-specific capital requirements in isolation, but should focus on how entity-specific capital requirements affect how an entity manages and determines the adequacy of its capital resources.

(g) A requirement to disclose entity-specific capital requirements imposed by a regulator is not part of Pillar 3 of the Basel II Framework developed by the Basel Committee on Banking Supervision.

BC96 Taking into account all of the above arguments, the Board decided not to require quantitative disclosure of externally imposed capital requirements. Rather, it decided to require disclosures about whether the entity complied with any externally imposed capital requirements during the period and, if not, the consequences of non-compliance. This retains confidentiality between regulators and the entity, but alerts users to breaches of capital requirements and their consequences.

BC97 Some respondents to ED 7 did not agree that breaches of externally imposed capital requirements should be disclosed. They argued that disclosure about breaches of externally imposed capital requirements and the associated regulatory measures subsequently imposed could be disproportionately damaging to entities. The Board was not persuaded by these arguments because it believes that such concerns indicate that information about breaches of externally imposed capital requirements may often be material by its nature. The *Framework* states that 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.' Similarly, the Board decided not to provide an exemption for temporary non-compliance with regulatory requirements during the year. Information that an entity is sufficiently close to its limits to breach them, even on a temporary basis, is useful for users.

Internal capital targets

BC98 The Board proposed in ED 7 that the requirement to disclose information about breaches of capital requirements should apply equally to breaches of internally imposed requirements, because it believed the information is also useful to a user of the financial statements.

BC99 However, this proposal was criticised by respondents to ED 7 for the following reasons:

(a) The information is subjective and, thus, not comparable between entities. In particular, different entities will set internal targets for different reasons, so a breach of a requirement might signify different things for different entities. In contrast, a breach of an external requirement has similar implications for all entities required to comply with similar requirements.

(b) Capital targets are not more important than other internally set financial targets, and to require disclosure only of capital targets would provide users with incomplete, and perhaps misleading, information.

(c) Internal targets are estimates that are subject to change by the entity. It is not appropriate to require the entity's performance against this benchmark to be disclosed.

(d) An internally set capital target can be manipulated by management. The disclosure requirement could cause management to set the target so that it would always be achieved, providing little useful information to users and potentially reducing the effectiveness of the entity's capital management.

BC100 As a result, the Board decided not to require disclosure of the capital targets set by management, whether the entity has complied with those targets, or the consequences of any non-compliance. However, the Board confirmed its view that when an entity has policies and processes for managing capital, qualitative disclosures about these policies and processes are useful. The Board also concluded that these disclosures, together with disclosure of the components of equity and their changes during the year (required by paragraphs 106–110), would give sufficient information about entities that are not regulated or subject to externally imposed capital requirements.

Puttable financial instruments and obligations arising on liquidation

BC100A The Board decided to require disclosure of information about puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation that are reclassified in accordance with paragraphs 16E and 16F of IAS 32. This is because the Board concluded that this disclosure allows users of financial statements to understand the effects of any reclassifications.

BC100B The Board also concluded that entities with puttable financial instruments classified as equity should be required to disclose additional information to allow users to assess any effect on the entity's liquidity arising from the ability of the holder to put the instruments to the issuer. Financial instruments classified as equity usually do not include any obligation for the entity to deliver a financial asset to another party. Therefore, the Board concluded that additional disclosures are needed in these circumstances. In particular, the Board concluded that entities should disclose the expected cash outflow on redemption or repurchase of those financial instruments that are classified as equity and information about how that amount was determined. That information allows liquidity risk associated with the put obligation and future cash flows to be evaluated.

Presentation of measures per share

BC101 The exposure draft of 2006 did not propose to change the requirements of IAS 33 *Earnings per Share* on the presentation of basic and diluted earnings per share. A majority of respondents agreed with this decision. In their opinion, earnings per share should be the only measure per share permitted or required in the statement of comprehensive income and changing those requirements was beyond the scope of this stage of the financial statement presentation project.

BC102 However, some respondents would like to see alternative measures per share whenever earnings per share is not viewed as the most relevant measure for financial analysts (ie credit rating agencies that focus on other measures). A few respondents proposed that an entity should also display an amount per share for total comprehensive income, because this was considered a useful measure. The Board did not support including alternative measures per share in the financial statements, until totals and subtotals, and principles for aggregating and disaggregating items, are addressed and discussed as part of the next stage of the financial statement presentation project.

BC103 Some respondents also interpreted the current provisions in IAS 33 as allowing de facto a display of alternative measures in the income statement. In its deliberations, the Board was clear that paragraph 73 of IAS 33 did not leave room for confusion. However, it decided that the wording in paragraph 73 could be improved to clarify that alternative measures should be shown 'only in the notes'. This will be done when IAS 33 is revisited or as part of the annual improvements process.

BC104 One respondent commented that the use of the word ‘earnings’ was inappropriate in the light of changes proposed in the exposure draft and that the measure should be denominated ‘profit or loss per share’, instead. The Board considered that this particular change in terminology was beyond the scope of IAS 1.

Transition and effective date

BC105 The Board is committed to maintaining a ‘stable platform’ of substantially unchanged standards for annual periods beginning between 1 January 2006 and 31 December 2008. In addition, some preparers will need time to make the system changes necessary to comply with the revisions to IAS 1. Therefore, the Board decided that the effective date of IAS 1 should be annual periods beginning on or after 1 January 2009, with earlier application permitted.

Differences from SFAS 130

BC106 In developing IAS 1, the Board identified the following differences from SFAS 130:

(a) **Reporting and display of comprehensive income** Paragraph 22 of SFAS 130 permits a choice of displaying comprehensive income and its components, in one or two statements of financial performance or in a statement of changes in equity. IAS 1 (as revised in 2007) does not permit display in a statement of changes in equity.

(b) **Reporting other comprehensive income in the equity section of a statement of financial position** Paragraph 26 of SFAS 130 specifically states that the *total of other comprehensive income* is reported separately from retained earnings and additional paid-in capital in a statement of financial position at the end of the period. A descriptive title such as *accumulated other comprehensive income* is used for that component of equity. An entity discloses accumulated balances for each classification in that separate component of equity in a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. IAS 1 (as revised in 2007) does not specifically require the display of a total of accumulated other comprehensive income in the statement of financial position.

(c) **Display of the share of other comprehensive income items of associates and joint ventures accounted for using the equity method** Paragraph 82 of IAS 1 (as revised in 2007) requires the display in the statement of comprehensive income of the investor’s share of the investee’s other comprehensive income. Paragraph 122 of SFAS 130 does not specify how that information should be displayed. An investor is permitted to combine its proportionate share of other comprehensive income amounts with its own other comprehensive income items and display the aggregate of those amounts in an income statement type format or in a statement of changes in equity.

Appendix
Amendments to the Basis for Conclusions on other HKFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs that are necessary in order to ensure consistency with the revised IAS 1. Amended paragraphs are shown with the new text underlined and deleted text struck through.

***

The amendments contained in this appendix when this Standard was revised in 2007 have been incorporated into the relevant pronouncements.

Dissenting opinions

Dissent of Mary E Barth, Anthony T Cope, Robert P Garnett and James J Leisenring from IAS 1 (as revised in September 2007)

DO1 Professor Barth and Messrs Cope, Garnett and Leisenring voted against the issue of IAS 1 *Presentation of Financial Statements* in 2007. The reasons for their dissent are set out below.

DO2 Those Board members agree with the requirement to report all items of income and expense separately from changes in net assets that arise from transactions with owners in their capacity as owners. Making that distinction clearly is a significant improvement in financial reporting.

DO3 However, they believe that the decision to permit entities to divide the statement of comprehensive income into two separate statements is both conceptually unsound and unwise.

DO4 As noted in paragraph BC51, the *Framework* does not define profit or loss, or net income. It also does not indicate what criteria should be used to distinguish between those items of recognised income and expense that should be included in profit or loss and those items that should not. In some cases, it is even possible for identical transactions to be reported inside or outside profit or loss. Indeed, in that same paragraph, the Board acknowledges these facts, and indicates that it had a preference for reporting all items of income and expense in a single statement, believing that a single statement is the conceptually correct approach. Those Board members believe that some items of income and expense that will potentially bypass the statement of profit and loss can be as significant to the assessment of an entity's performance as items that will be included. Until a conceptual distinction can be developed to determine whether any items should be reported in profit or loss or elsewhere, financial statements will lack neutrality and comparability unless all items are reported in a single statement. In such a statement, profit or loss can be shown as a subtotal, reflecting current conventions.

DO5 In the light of those considerations, it is puzzling that most respondents to the exposure draft that proposed these amendments favoured permitting a two-statement approach, reasoning that it 'distinguishes between profit and loss and total comprehensive income' (paragraph BC50). Distinguishing between those items reported in profit or loss and those reported elsewhere is accomplished by the requirement for relevant subtotals to be included in a statement of comprehensive income. Respondents also stated that a two-statement approach gives primacy to the 'income statement'; that conflicts with the Board's requirement in paragraph 11 of IAS 1 to give equal prominence to all financial statements within a set of financial statements.

DO6 Those Board members also believe that the amendments are flawed by offering entities a choice of presentation methods. The Board has expressed a desire to reduce alternatives in IFRSs. The *Preface to International Financial Reporting Standards*, in paragraph 13, states: 'the IASB intends not to permit choices in accounting treatment … and will continue to reconsider … those transactions and events for which IASs permit a choice of accounting treatment, with the objective of reducing the number of those choices.' The *Preface* extends this objective to both accounting and reporting. The same paragraph states: 'The IASB's objective is to require like transactions and events to be accounted for *and reported* in a like way and unlike transactions and events to be accounted for *and reported* differently' (emphasis added). By permitting a choice in this instance, the IASB has abandoned that principle.

DO7 Finally, the four Board members believe that allowing a choice of presentation at this time will ingrain practice, and make achievement of the conceptually correct presentation more difficult as the long-term project on financial statement presentation proceeds.

Appendix

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKFRS 9 *Financial Instruments* (issued in November 2009) – effective for annual periods beginning on or after 1 January 2013

The Basis for Conclusions on IAS 1 is amended as described below.

In paragraph BC38A the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' and in paragraph BC38B the reference to 'IAS 39' are footnoted as follows:

* In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39. Paragraphs BC38A–BC38D discuss matters relevant when IAS 1 was issued.

In paragraphs BC49 and BC69 the references to 'available-for-sale' are footnoted as follows:

* IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of available-for-sale financial assets. This paragraph discusses matters relevant when IAS 1 was issued.

Guidance on implementing IAS 1 *Presentation of Financial Statements*

This guidance accompanies, but is not part of, IAS 1.

Illustrative financial statement structure

IG1 IAS 1 sets out the components of financial statements and minimum requirements for disclosure in the statements of financial position, comprehensive income and changes in equity. It also describes further items that may be presented either in the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of IAS 1 for the presentation of the statements of financial position, comprehensive income and changes in equity might be met. An entity should change the order of presentation, the titles of the statements and the descriptions used for line items when necessary to suit its particular circumstances.

IG2 The guidance is in three sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Paragraphs IG10 and IG11 provide examples of capital disclosures.

IG3 The illustrative statement of financial position shows one way in which an entity may present a statement of financial position distinguishing between current and non-current items. Other formats may be equally appropriate, provided the distinction is clear.

IG4 The illustrations use the term ‘comprehensive income’ to label the total of all components of comprehensive income, including profit or loss. The illustrations use the term ‘other comprehensive income’ to label income and expenses that are included in comprehensive income but excluded from profit or loss. IAS 1 does not require an entity to use those terms in its financial statements.

IG5 Two statements of comprehensive income are provided, to illustrate the alternative presentations of income and expenses in a single statement or in two statements. The single statement of comprehensive income illustrates the classification of income and expenses within profit or loss by function. The separate statement (in this example, ‘the income statement’) illustrates the classification of income and expenses within profit by nature.

IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, a summary of significant accounting policies and other explanatory information.

Part I: Illustrative presentation of financial statements

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	**31 Dec 20X6**
ASSETS		
Non-current assets		
Property, plant and equipment	350,700	360,020
Goodwill	80,800	91,200
Other intangible assets	227,470	227,470
Investments in associates	100,150	110,770
Available-for-sale financial assets	142,500	156,000
	901,620	945,460
Current assets		
Inventories	135,230	132,500
Trade receivables	91,600	110,800
Other current assets	25,650	12,540
Cash and cash equivalents	312,400	322,900
	564,880	578,740
Total assets	1,466,500	1,524,200

continued...

...continued

XYZ Group – Statement of financial position as at 31 December 20X7

(in thousands of currency units)

	31 Dec 20X7	31 Dec 20X6
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	650,000	600,000
Retained earnings	243,500	161,700
Other components of equity	10,200	21,200
	903,700	782,900
~~Minority interest~~Non-controlling interests	70,050	48,600
Total equity	973,750	831,500
Non-current liabilities		
Long-term borrowings	120,000	160,000
Deferred tax	28,800	26,040
Long-term provisions	28,850	52,240
Total non-current liabilities	177,650	238,280
Current liabilities		
Trade and other payables	115,100	187,620
Short-term borrowings	150,000	200,000
Current portion of long-term borrowings	10,000	20,000
Current tax payable	35,000	42,000
Short-term provisions	5,000	4,800
Total current liabilities	315,100	454,420
Total liabilities	492,750	692,700
Total equity and liabilities	1,466,500	1,524,200

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	20X6
Revenue	390,000	355,000
Cost of sales	(245,000)	(230,000)
Gross profit	145,000	125,000
Other income	20,667	11,300
Distribution costs	(9,000)	(8,700)
Administrative expenses	(20,000)	(21,000)
Other expenses	(2,100)	(1,200)
Finance costs	(8,000)	(7,500)
Share of profit of associates[(a)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operations	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations[(b)]	5,334	10,667
Available-for-sale financial assets[(b)]	(24,000)	26,667
Cash flow hedges[(b)]	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates[(c)]	400	(700)
Income tax relating to components of other comprehensive income[(d)]	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500

continued..

...continued

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

	20X7	20X6
Profit attributable to:		
Owners of the parent	97,000	52,400
~~Minority interest~~Non-controlling interests	24,250	13,100
	121,250	65,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
~~Minority interest~~Non-controlling interests	21,450	18,700
	107,250	93,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

continued..

...continued

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in one statement and the classification of expenses within profit by function)

(in thousands of currency units)

Alternatively, components of other comprehensive income could be presented in the statement of comprehensive income net of tax:

Other comprehensive income for the year, after tax:	**20X7**	**20X6**
Exchange differences on translating foreign operations	4,000	8,000
Available-for-sale financial assets	(18,000)	20,000
Cash flow hedges	(500)	(3,000)
Gains on property revaluation	600	2,700
Actuarial gains (losses) on defined benefit pension plans	(500)	1,000
Share of other comprehensive income of associates	400	(700)
Other comprehensive income for the year, net of tax[(d)]	(14,000)	28,000

(a) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and ~~minority interests~~non-controlling interests in the associates.

(b) This illustrates the aggregated presentation, with disclosure of the current year gain or loss and reclassification adjustment presented in the notes. Alternatively, a gross presentation can be used.

(c) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and minority interests in the associates.

(d) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group – Income statement for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in two statements and classification of expenses within profit by nature)

(in thousands of currency units)

	20X7	**20X6**
Revenue	390,000	355,000
Other income	20,667	11,300
Changes in inventories of finished goods and work in progress	(115,100)	(107,900)
Work performed by the entity and capitalised	16,000	15,000
Raw material and consumables used	(96,000)	(92,000)
Employee benefits expense	(45,000)	(43,000)
Depreciation and amortisation expense	(19,000)	(17,000)
Impairment of property, plant and equipment	(4,000)	–
Other expenses	(6,000)	(5,500)
Finance costs	(15,000)	(18,000)
Share of profit of associates[(e)]	35,100	30,100
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year from continuing operations	121,250	96,000
Loss for the year from discontinued operation	–	(30,500)
PROFIT FOR THE YEAR	121,250	65,500
Profit attributable to:		
Owners of the parent	97,000	52,400
~~Minority interest~~Non-controlling interests	24,250	13,100
	121,250	65,500
Earnings per share (in currency units):		
Basic and diluted	0.46	0.30

(e) This means the share of associates' profit attributable to owners of the associates, ie it is after tax and ~~minority interests~~non-controlling interests in the associates.

XYZ Group – Statement of comprehensive income for the year ended 31 December 20X7

(illustrating the presentation of comprehensive income in two statements)

(in thousands of currency units)

	20X7	**20X6**
Profit for the year	121,250	65,500
Other comprehensive income:		
Exchange differences on translating foreign operations	5,334	10,667
Available-for-sale financial assets	(24,000)	26,667
Cash flow hedges	(667)	(4,000)
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates[(f)]	400	(700)
Income tax relating to components of other comprehensive income[(g)]	4,667	(9,334)
Other comprehensive income for the year, net of tax	(14,000)	28,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	107,250	93,500
Total comprehensive income attributable to:		
Owners of the parent	85,800	74,800
~~Minority interest~~Non-controlling interests	21,450	18,700
	107,250	93,500

Alternatively, components of other comprehensive income could be presented, net of tax. Refer to the statement of comprehensive income illustrating the presentation of income and expenses in one statement.

(f) This means the share of associates' other comprehensive income attributable to owners of the associates, ie it is after tax and ~~minority interests~~non-controlling interests in the associates.

(g) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group

Disclosure of components of other comprehensive income(h)

Notes

Year ended 31 December 20X7

(in thousands of currency units)

		20X7		20X6
Other comprehensive income:				
Exchange differences on translating foreign operations(i)		5,334		10,667
Available-for-sale financial assets:				
Gains arising during the year	1,333		30,667	
Less: Reclassification adjustments for gains included in profit or loss	(25,333)	(24,000)	(4,000)	26,667
Cash flow hedges:				
Gains (losses) arising during the year	(4,667)		(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333		–	
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(667)	–	(4,000)

continued...

...continued

XYZ Group

Disclosure of components of other comprehensive income

Notes

Year ended 31 December 20X7

(in thousands of currency units)

	20X7	**20X6**
Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income[(j)]	4,667	(9,334)
Other comprehensive income for the year	(14,000)	28,000

(h) When an entity chooses an aggregated presentation in the statement of comprehensive income, the amounts for reclassification adjustments and current year gain or loss are presented in the notes.

(i) There was no disposal of a foreign operation. Therefore, there is no reclassification adjustment for the years presented.

(j) The income tax relating to each component of other comprehensive income is disclosed in the notes.

XYZ Group

Disclosure of tax effects relating to each component of other comprehensive income

Notes

Year ended 31 December 20X7

(in thousands of currency units)

	20X7			**20X6**		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	5,334	(1,334)	4,000	10,667	(2,667)	8,000
Available-for-sale financial assets	(24,000)	6,000	(18,000)	26,667	(6,667)	20,000
Cash flow hedges	(667)	167	(500)	(4,000)	1,000	(3,000)
Gains on property revaluation	933	(333)	600	3,367	(667)	2,700
Actuarial gains (losses) on defined benefit pension plans	(667)	167	(500)	1,333	(333)	1,000
Share of other comprehensive income of associates	400	–	400	(700)	–	(700)
Other comprehensive income	(18,667)	4,667	(14,000)	37,334	(9,334)	28,000

XYZ Group – Statement of changes in equity for the year ended 31 December 20X7

(in thousands of currency units)

	Share capital	Retained earnings	Translation of foreign operations	Available-for-sale financial assets	Cash flow hedges	Revaluation surplus	Total	~~Minority interest~~ Non-controlling interests	Total equity
Balance at 1 January 20X6	600,000	118,100	(4,000)	1,600	2,000	–	717,700	29,800	747,500
Changes in accounting policy	–	400	–	–	–	–	400	100	500
Restated balance	600,000	118,500	(4,000)	1,600	2,000	–	718,100	29,900	748,000
Changes in equity for 20X6									
Dividends	–	(10,000)	–	–	–	–	(10,000)	–	(10,000)
Total comprehensive income for the year[k]	–	53,200	6,400	16,000	(2,400)	1,600	74,800	18,700	93,500
Balance at 31 December 20X6	600,000	161,700	2,400	17,600	(400)	1,600	782,900	48,600	831,500
Changes in equity for 20X7									
Issue of share capital	50,000	–	–	–	–	–	50,000	–	50,000
Dividends	–	(15,000)	–	–	–	–	(15,000)	–	(15,000)
Total comprehensive income for the year[l]	–	96,600	3,200	(14,400)	(400)	800	85,800	21,450	107,250
Transfer to retained earnings	–	200	–	–	–	(200)	–	–	–
Balance at 31 December 20X7	650,000	243,500	5,600	3,200	(800)	2,200	903,700	70,050	973,750

continued...

...continued

(k) The amount included in retained earnings for 20X6 of 53,200 represents profit attributable to owners of the parent of 52,400 plus actuarial gains on defined benefit pension plans of 800 (1,333, less tax 333, less ~~minority interest~~non-controlling interests 200).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and ~~minority interest~~non-controlling interests, eg other comprehensive income related to available-for-sale financial assets for 20X6 of 16,000 is 26,667, less tax 6,667, less ~~minority interest~~non-controlling interests 4,000.

The amount included in the revaluation surplus of 1,600 represents the share of other comprehensive income of associates of (700) plus gains on property revaluation of 2,300 (3,367, less tax 667, less ~~minority interest~~non-controlling interests 400). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

(l) The amount included in retained earnings for 20X7 of 96,600 represents profit attributable to owners of the parent of 97,000 plus actuarial losses on defined benefit pension plans of 400 (667, less tax 167, less ~~minority interest~~non-controlling interests 100).

The amount included in the translation, available-for-sale and cash flow hedge reserves represent other comprehensive income for each component, net of tax and ~~minority interest~~non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less ~~minority interest~~non-controlling interests 800.

The amount included in the revaluation surplus of 800 represents the share of other comprehensive income of associates of 400 plus gains on property revaluation of 400 (933, less tax 333, less ~~minority interest~~non-controlling interests 200). Other comprehensive income of associates relates solely to gains or losses on property revaluation.

Part II: Illustrative example of the determination of reclassification adjustments

IG7 The Standard requires an entity to disclose reclassification adjustments relating to each component of other comprehensive income.

IG8 This guidance provides an illustration of the calculation of reclassification adjustments for available-for-sale financial assets recognised in accordance with IAS 39.

IG9 On 31 December 20X5, XYZ Group purchased 1,000 shares (equity instruments) at 10 currency units (CU) per share, classified as available for sale. The fair value of the instruments at 31 December 20X6 was CU12; at 31 December 20X7 the fair value had increased to CU15. All of the instruments were sold on 31 December 20X7; no dividends were declared on those instruments during the time that they were held by XYZ Group. The applicable tax rate in accordance with IAS 12 *Income Taxes* is 30 per cent.

Calculation of gains

(in currency units)

	Before tax	**Income tax**	**Net of tax**
Gains recognised in other comprehensive income:			
Year ended 31 December 20X6	2,000	(600)	1,400
Year ended 31 December 20X7	3,000	(900)	2,100
Total gain	5,000	(1,500)	3,500

Amounts reported in profit or loss and other comprehensive income for the years ended 31 December 20X6 and 31 December 20X7

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	3,500	
Other comprehensive income:		
Gain arising during the year, net of tax	2,100	1,400
Reclassification adjustment, net of tax	(3,500)	–
Net gain (loss) recognised in other comprehensive income	(1,400)	1,400
	2,100	1,400

Alternatively, components of other comprehensive income may be shown gross of tax with a separate line item for tax effects:

	20X7	20X6
Profit or loss:		
Gain on sale of instruments	5,000	
Income tax expense	(1,500)	
Net gain recognised in profit or loss	3,500	
Other comprehensive income:		
Gain arising during the year	3,000	2,000
Reclassification adjustment	(5,000)	–
Income tax relating to other comprehensive income	600	(600)
Net gain (loss) recognised in other comprehensive income	(1,400)	1,400
	2,100	1,400

Part III: Illustrative examples of capital disclosures (paragraphs 134–136)

An entity that is not a regulated financial institution

IG10 The following example illustrates the application of paragraphs 134 and 135 for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 134 and 135.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, ~~minority interest~~non-controlling interests, retained earnings, and revaluation ~~reserve~~surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

continued...

...continued

During 20X4, the Group's strategy, which was unchanged from 20X3, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X4 and at 31 December 20X3 were as follows:

	31 Dec 20X4	**31 Dec 20X3**
	CU million	**CU million**
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X4 resulted primarily from the reduction in net debt that occurred on the sale of subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X4 (from CU2.5 million for 20X3).

An entity that has not complied with externally imposed capital requirements

IG11 The following example illustrates the application of paragraph 135(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 134 and 135.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X7, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X7, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X7 on 20 October 20X7. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X7. In the fourth quarter of 20X7, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

Appendix A
Amendments to guidance on other HKFRSs

The following amendments to guidance on other HKFRSs are necessary in order to ensure consistency with the revised HKAS 1. In the amended paragraphs, new text is underlined and deleted text is struck through.

****

The amendments contained in this appendix when this guidance was issued have been incorporated into the text of the relevant guidance.

Appendix B
Amendments resulting from other Implementation Guidance

The following sets out amendments required for this Guidance resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Guidance and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKFRS 9 *Financial Instruments* (issued in November 2009) - effective for annual periods beginning on or after 1 January 2013

In the guidance on implementing IAS 1, the heading above paragraph IG7 and paragraphs IG7–IG9 are deleted. Paragraph IG2 is amended as follows:

IG2 The guidance is in ~~three~~ two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. ~~provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with IAS 39~~ ~~*Financial Instruments: Recognition and Measurement.*~~ Paragraphs IG10 and IG11 provide examples of capital disclosures.

In the illustrative financial statements, references to 'Available-for-sale financial assets' are replaced by 'Investments in equity instruments'. In the single statement of comprehensive income the reference to footnote (b) against the deleted line item 'Available-for-sale financial asset' is deleted. The heading and table 'Disclosure of components of other comprehensive income' are amended to read as follows:

Part I: Illustrative presentation of financial statements

Disclosure of components of other comprehensive income
[footnote omitted]

Notes

Year ended 31 December 20X7
(in thousands of currency units)

		20X7		**20X6**
Other comprehensive income:				
Exchange differences on translating foreign operations [footnote omitted]		5,334		10,667
Investments in equity instruments		(24,000)		26,667
Cash flow hedges:				
Gains (losses) arising during the year	(4,667)		(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333		–	
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(667)	–	(4,000)

Gains on property revaluation	933	3,367
Actuarial gains (losses) on defined benefit pension plans	(667)	1,333
Share of other comprehensive income of associates	400	(700)
Other comprehensive income	(18,667)	37,334
Income tax relating to components of other comprehensive income [footnote omitted]	4,667	(9,334)
Other comprehensive income for the year	**(14,000)**	**28,000**

The second paragraph in footnote (k) to the illustrative financial statements is amended as follows:

(k) The amount included in the translation, investments in equity instruments ~~available-for-sale~~ and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments ~~available-for-sale financial assets~~ for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

The second paragraph in footnote (l) to the illustrative financial statements is amended as follows:

(l) The amount included in the translation, investment in equity instruments ~~available-for-sale~~ and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

Table of Concordance

This table shows how the contents of HKAS 1 and HKAS 1 (revised 2007) correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded HKAS 1 paragraph	HKAS 1 (revised 2007) paragraph
1	1, 3
2	2
3	4,7
4	None
5	5
6	6
7	9
8	10
9, 10	13, 14
11	7
12	7
None	8
None	11, 12
13–22	15–24
23, 24	25, 26
25, 26	27, 28
27, 28	45, 46
29–31	29–31
32–35	32–35
36	38
None	39
37–41	40–44

Superseded HKAS 1 paragraph	HKAS 1 (revised 2007) paragraph
42, 43	47, 48
44–48	49–53
49, 50	36, 37
51–67	60–76
68	54
68A	54
69–73	55–59
74–77	77–80
None	81
78	88
79	89
80	89
81	82
82	83
None	84
83–85	85–87
None	90–96
86–94	97–105
95	107
None	108
96, 97	106, 107
98	109

Superseded HKAS 1 paragraph	HKAS 1 (revised 2007) paragraph
101	None
102	111
103–107	112–116
108–115	117–124
116–124	125–133
124A–124C	134–136
125, 126	137, 138
127	139
127A	None
127B	None
128	140
IG1	IG1
None	IG2
IG2	IG3
None	IG4
IG3, IG4	IG5, IG6
None	IG7
None	IG8
None	IG9
IG5, IG6	IG10, IG11

Guidance on Implementing IAS 1

This guidance accompanies, but is not part of, IAS 1.

Illustrative Financial Statement Structure

IG1. The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet and the income statement as well as for the presentation of changes in equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of ways in which the requirements of the Standard for the presentation of the balance sheet, income statement and changes in equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances.

IG2. The illustrative balance sheet shows one way in which a balance sheet distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. Two income statements are provided, to illustrate the alternative classifications of income and expenses, by nature and by function. Two possible approaches to presenting changes in equity are also illustrated.

IG4. The examples are not intended to illustrate all aspects of IFRSs. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies and other explanatory notes.

Example – Disclosure of proposed dividend

This example accompanies, but is not part of IAS 1. The purpose of the appendix is to illustrate the application of the standards and the Hong Kong Companies Ordinance to assist in clarifying their meaning.

Extract from the income statement

	20X2	**20X1**
	$	$
Net profit for the period	X	X
Dividends:		
Interim dividend paid of $0.15 (20X1:$0.10) per ordinary share	7,500	5,000
Proposed final dividend of $0.25 (20X1:$0.20) per ordinary share	12,500	10,000
	20,000	15,000

Extract from the balance statement

	20X2	**20X1**
	$	$
CAPITAL AND RESERVES		
Issued capital	X	X
Reserves	X	X
Accumulated profits	X	X
Proposed final dividend	12,500	10,000
SHAREHOLDERS' EQUITY	X	X

HKAS 2
Revised ~~October 2008~~January 2010

Effective for annual periods beginning
on or after 1 January 2005

Hong Kong Accounting Standard 2

Inventories

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

COPYRIGHT

CONTENTS

Hong Kong Accounting Standard 2 *Inventories* (HKAS 2) is set out in paragraphs 1-42 and ~~the~~ Appendix C. All the paragraphs have equal authority. HKAS 2 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.

Introduction

IN1 Hong Kong Accounting Standard 2 *Inventories* (HKAS 2) replaces SSAP 22 *Inventories* (revised in 2001) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Reasons for issuing HKAS 2

IN2 The objectives of the Hong Kong Institute of Certified Public Accountants (HKICPA) issuing HKAS 2 were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For HKAS 2 the HKICPA's main objective was to reduce alternatives for the measurement of inventories. The HKICPA did not reconsider the fundamental approach to accounting for inventories contained in HKAS 2.

The main features

IN4 The main features of HKAS 2 are described below.

Objective and scope

IN5 The words 'held under the historical cost system' included in the scope paragraphs of SSAP 22 were removed, to clarify that the Standard applies to all inventories that are not specifically excluded from its scope.

Scope clarification

IN6 The Standard clarifies that some types of inventories are outside its scope while certain other types of inventories are exempted only from the measurement requirements in the Standard.

IN7 Paragraph 3 establishes a clear distinction between those inventories that are entirely outside the scope of the Standard (described in paragraph 2) and those inventories that are outside the scope of the measurement requirements but within the scope of the other requirements in the Standard.

Scope exemptions

Producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products

IN8 The Standard does not apply to the measurement of inventories of producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established industry practices.

Inventories of commodity broker-traders

IN9 The Standard does not apply to the measurement of inventories of commodity broker-traders to the extent that they are measured at fair value less costs to sell.

Cost of inventories

Costs of purchase

IN10 HKAS 2 does not permit exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the costs of purchase of inventories.

Other costs

IN11 Paragraph 18 was inserted to clarify that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognised as interest expense over the period of financing.

Cost formulas

Consistency

IN12 [Not used]

Prohibition of LIFO as a cost formula

IN13 The Standard does not permit the use of the last-in, first-out (LIFO) formula to measure the cost of inventories.

Recognition as an expense

IN14 The Standard eliminates the reference to the matching principle.

IN15 The Standard describes the circumstances that would trigger a reversal of a write-down of inventories recognised in a prior period.

Disclosure

Inventories carried at fair value less costs to sell

IN16 The Standard requires disclosure of the carrying amount of inventories carried at fair value less costs to sell.

Write-down of inventories

IN17 The Standard requires disclosure of the amount of any write-down of inventories recognised as an expense in the period and eliminates the requirement to disclose the amount of inventories carried at net realisable value.

Hong Kong Accounting Standard 2
Inventories

Objective

1 The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

2 This Standard applies to all inventories, except:

(a) work in progress arising under construction contracts, including directly related service contracts (see HKAS 11 *Construction Contracts*);

(b) financial instruments (see HKAS 32 *Financial Instruments: Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*); and

(c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see HKAS 41 *Agriculture*).

3 This Standard does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.

(b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

4 The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.

5 Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

6 The following terms are used in this Standard with the meanings specified:

Inventories **are assets:**

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realisable value **is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.**

Fair value **is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.**

7 Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

8 Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (see HKAS 18 *Revenue*).

Measurement of inventories

9 Inventories shall be measured at the lower of cost and net realisable value.

Cost of inventories

10 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

11 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

13 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs

15 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

16 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary in the production process before a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

17 HKAS 23 *Borrowing Costs* identifies limited circumstances where borrowing costs are included in the cost of inventories.

18 An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Cost of inventories of a service provider

19 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

20 In accordance with HKAS 41 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less ~~estimated point-of-sale~~ costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the measurement of cost

21 Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

22 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost formulas

23 **The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.**

24 Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.

25 **The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**

26 For example, inventories used in one ~~business~~ operating segment may have a use to the entity different from the same type of inventories used in another ~~business~~ operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

27 The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net realisable value

28 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.

29 Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular ~~industry or geographical~~ operating segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

30 Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

31 Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

32 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

33 A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an expense

34 When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

35 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

36 **The financial statements shall disclose:**

(a) **the accounting policies adopted in measuring inventories, including the cost formula used;**

(b) **the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**

(c) **the carrying amount of inventories carried at fair value less costs to sell;**

(d) **the amount of inventories recognised as an expense during the period;**

(e) **the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;**

(f) **the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;**

(g) **the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and**

(h) **the carrying amount of inventories pledged as security for liabilities.**

37 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods. The inventories of a service provider may be described as work in progress.

38 The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

39 Some entities adopt a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

Effective date

40 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

40a~~A~~ If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period.

Withdrawal of other pronouncements

41 This Standard supersedes SSAP 22 *Inventories*, revised in 2001.

42 [Not used]

Appendix A

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at 9 March 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 2.

The International Accounting Standard comparable with HKAS 2 is IAS 2 *Inventories*.

There are no major textual differences between HKAS 2 and IAS 2.

Appendix B

Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period

* * *

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

Appendix C

Amendments resulting from other HKFRSs

The following sets out amendments required for this Standard resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKFRS 9 *Financial Instruments* (issued in November 2009) - effective for annual periods beginning on or after 1 January 2013

Paragraph 2(b) is amended and paragraph 40A added as follows:

2 **This Standard applies to all inventories, except:**

...

(b) financial instruments (see HKAS 32 *Financial Instruments: Presentation*, ~~and~~ HKAS 39 *Financial Instruments: Recognition and Measurement* <u>and HKFRS 9 *Financial Instruments*</u>); and

...

40A HKFRS 9, issued in November 2009, amended paragraph 2(b). An entity shall apply that amendment when it applies HKFRS 9.

Basis for Conclusions on HKAS 2 *Inventories*

This Basis for Conclusions accompanies, but is not part, of HKAS 2.

HKAS 2 is based on IAS 2, *Inventories*. In approving HKAS 2, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 2 (as revised 2003). Accordingly, there are no significant differences between HKAS 2 and IAS 2. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 2 referred to below generally correspond with those in HKAS 2.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 2 *Inventories* in 2003. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 2. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for inventories established by IAS 2, this Basis for Conclusions does not discuss requirements in IAS 2 that the Board has not reconsidered.

Scope

Reference to historical cost system

BC4 Both the objective and the scope of the previous version of IAS 2 referred to 'the accounting treatment for inventories under the historical cost system.' Some had interpreted those words as meaning that the Standard applied only under a historical cost system and permitted entities the choice of applying other measurement bases, for example fair value.

BC5 The Board agreed that those words could be seen as permitting a choice, resulting in inconsistent application of the Standard. Accordingly, it deleted the words 'in the context of the historical cost system in accounting for inventories' to clarify that the Standard applies to all inventories that are not specifically exempted from its scope.

Inventories of broker-traders

BC6 The Exposure Draft proposed excluding from the scope of the Standard inventories of non-producers of agricultural and forest products and mineral ores to the extent that these inventories are measured at net realisable value in accordance with well-established industry practices. However, some respondents disagreed with this scope exemption for the following reasons:

(a) the scope exemption should apply to all types of inventories of broker-traders;

(b) established practice is for broker-traders to follow a mark-to-market approach rather than to value these inventories at net realisable value;

(c) the guidance on net realisable value in IAS 2 is not appropriate for the valuation of inventories of broker-traders.

BC7 The Board found these comments persuasive. Therefore it decided that the Standard should not apply to the measurement of inventories of:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value (as in the previous version of IAS 2), or

(b) commodity broker-traders when these inventories are measured at fair value less costs to sell.

BC8 The Board further decided that the measurement of the effect of inventories on profit or loss for the period needed to be consistent with the measurement attribute of inventories for which such exemption is allowed. Accordingly, to qualify under (a) or (b), the Standard requires changes in the recognised amount of inventories to be included in profit or loss for the period. The Board believes this is particularly appropriate in the case of commodity broker-traders because they seek to profit from fluctuations in prices and trade margins.

Cost formulas

BC9 The combination of the previous version of IAS 2 and SIC-1 *Consistency—Different Cost Formulas for Inventories* allowed some choice between first-in, first-out (FIFO) or weighted average cost formulas (benchmark treatment) and the last-in, first-out (LIFO) method (allowed alternative treatment). The Board decided to eliminate the allowed alternative of using the LIFO method.

BC10 The LIFO method treats the newest items of inventory as being sold first, and consequently the items remaining in inventory are recognised as if they were the oldest. This is generally not a reliable representation of actual inventory flows.

BC11 The LIFO method is an attempt to meet a perceived deficiency of the conventional accounting model (the measurement of cost of goods sold expense by reference to outdated prices for the inventories sold, whereas sales revenue is measured at current prices). It does so by imposing an unrealistic cost flow assumption.

BC12 The use of LIFO in financial reporting is often tax-driven, because it results in cost of goods sold expense calculated using the most recent prices being deducted from revenue in the determination of the gross margin. The LIFO method reduces (increases) profits in a manner that tends to reflect the effect that increased (decreased) prices would have on the cost of replacing inventories sold. However, this effect depends on the relationship between the prices of the most recent inventory acquisitions and the replacement cost at the end of the period. Thus, it is not a truly systematic method for determining the effect of changing prices on profits.

BC13 The use of LIFO results in inventories being recognised in the balance sheet at amounts that bear little relationship to recent cost levels of inventories. However, LIFO can distort profit or loss, especially when ‘preserved’ older ‘layers’ of inventory are presumed to have been used when inventories are substantially reduced. It is more likely in these circumstances that relatively new inventories will have been used to meet the increased demands on inventory.

BC14 Some respondents argued that the use of LIFO has merit in certain circumstances because it partially adjusts profit or loss for the effects of price changes. The Board concluded that it is not appropriate to allow an approach that results in a measurement of profit or loss for the period that is inconsistent with the measurement of inventories for balance sheet purposes.

BC15 Other respondents argued that in some industries, such as the oil and gas industry, inventory levels are driven by security considerations and often represent a minimum of 90 days of sales. They argue that, in these industries, the use of LIFO better reflects an entity’s performance because inventories held as security stocks are closer to long-term assets than to working capital.

BC16 The Board was not convinced by these arguments because these security stocks do not match historical layers under a LIFO computation.

BC17 Other respondents argued that in some cases, for example, when measuring coal dumps, piles of iron or metal scraps (when stock bins are replenished by ‘topping up’), the LIFO method reflects the actual physical flow of inventories.

BC18 The Board concluded that valuation of these inventories follows a direct costing approach where actual physical flows are matched with direct costs, which is a method different from LIFO.

BC19 The Board decided to eliminate the LIFO method because of its lack of representational faithfulness of inventory flows. This decision does not rule out specific cost methods that reflect inventory flows that are similar to LIFO.

BC20 The Board recognised that, in some jurisdictions, use of the LIFO method for tax purposes is possible only if that method is also used for accounting purposes. It concluded, however, that tax considerations do not provide an adequate conceptual basis for selecting an appropriate accounting treatment and that it is not acceptable to allow an inferior accounting treatment purely because of tax regulations and advantages in particular jurisdictions. This may be an issue for local taxation authorities.

BC21 IAS 2 continues to allow the use of both the FIFO and the weighted average methods for interchangeable inventories.

Cost of inventories recognised as an expense in the period

BC22 The Exposure Draft proposed deleting paragraphs in the previous version of IAS 2 that required disclosure of the cost of inventories recognised as an expense in the period, because this disclosure is required in IAS 1 *Presentation of Financial Statements*.

BC23 Some respondents observed that IAS 1 does not specifically require disclosure of the cost of inventories recognised as an expense in the period when presenting an analysis of expenses using a classification based on their function. They argued that this information is important to understand the financial statements. Therefore the Board decided to require this disclosure specifically in IAS 2.

Table of Concordance

This table shows how the contents of the superseded SSAP 22 and the current HKAS 2 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded SSAP 22 paragraph	Current HKAS 2 paragraph
Introduction	1
1	2,3
2	4
3	6
4	8
5	9
6	10
7	11
8	12
9	13
10	14
11	15
12	16
13	17
14	19
15	21
16	22
17	23
18	24
19	25

Superseded SSAP 22 paragraph	Current HKAS 2 paragraph
20	27
21	28
22	29
23	30
24	31
25	32
26	33
27	34
28	None
29	35
30	36
31	37
32	36
33	38
34	39
35	None
36	40
37	None
None	3
None	5
None	7
None	18
None	20
None	25, 26
None	41
None	42

HKAS 7

Revised ~~May 2009~~January 2010

Hong Kong Accounting Standard 7

Statement of Cash Flows

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

CONTENTS

paragraphs

Hong Kong Accounting Standard 7
Statement of Cash Flows

Hong Kong Accounting Standard 7 *Statement of Cash Flows* (HKAS 7) is set out in paragraphs 1-5~~3~~56. All the paragraphs have equal authority. HKAS 7 should be read in the context of its objective, 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.

Hong Kong Accounting Standard 7
Statement of Cash Flows*

Objective

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

Scope

1 An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

2 This Standard supersedes SSAP 15 *Cash Flow Statements* revised in 2001.

3 Users of an entity's financial statements are interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information

4 A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

5 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

6 The following terms are used in this Standard with the meanings specified:

Cash **comprises cash on hand and demand deposits.**

Cash equivalents **are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.**

---

* As a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in December 2007, the title of HKAS 7 was amended from *Cash Flow Statements* to *Statement of Cash Flows*.

Cash flows **are inflows and outflows of cash and cash equivalents.**

Operating activities **are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.**

Investing activities **are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.**

Financing activities **are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.**

Cash and cash equivalents

7 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

8 Bank borrowings are generally considered to be financing activities. However, in some countries, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

9 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a statement of cash flows

10 The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.

11 An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

12 A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

Operating activities

13 The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity have generated sufficient cash flows to repay loans, maintain the operating capability of the entity, pay dividends and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

(g) cash receipts and payments from contracts held for dealing or trading purposes.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss ~~which~~ that is included in ~~the determination of~~ recognised profit or loss. ~~However, t~~The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of HKAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

16* The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

* Amendments effective for annual periods beginning on or after 1 January 2010.

Financing activities

17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Reporting cash flows from operating activities

18 An entity shall report cash flows from operating activities using either:

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

19 Entities are encouraged to report cash flows from operating activities using the direct method. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the entity; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial institution) and other items in the ~~income statement~~ statement of comprehensive income for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b)[♦] non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates~~, and minority interests~~; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the ~~income statement~~ statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

♦ Amendments effective for annual periods beginning on or after 1 July 2009.

Reporting cash flows from investing and financing activities

21 **An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.**

Reporting cash flows on a net basis

22 **Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**

(a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and

(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

23 Examples of cash receipts and payments referred to in paragraph 22(a) are:

(a) the acceptance and repayment of demand deposits of a bank;

(b) funds held for customers by an investment entity; and

(c) rents collected on behalf of, and paid over to, the owners of properties.

Examples of cash receipts and payments referred to in paragraph 22(b) are advances made for, and the repayment of:

(a) principal amounts relating to credit card customers;

(b) the purchase and sale of investments; and

(c) other short-term borrowings, for example, those which have a maturity period of three months or less.

24 **Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:**

(a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

(b) the placement of deposits with and withdrawal of deposits from other financial institutions; and

(c) cash advances and loans made to customers and the repayment of those advances and loans.

Foreign currency cash flows

25 **Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.**

26 **The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.**

27 Cash flows denominated in a foreign currency are reported in a manner consistent with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign subsidiary. However, HKAS 21 does not permit use of the exchange rate at the end of the reporting period when translating the cash flows of a foreign subsidiary.

28 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

29 [Not used]

30 [Not used]

Interest and dividends

31 Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in ~~the income statement~~ profit or loss or capitalised in accordance with ~~the allowed alternative treatment in~~ HKAS 23 *Borrowing Costs*.

33 Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

34 Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

Taxes on income

35 Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

36 Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a statement of cash flows. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 An entity which reports its interest in a jointly controlled entity (see HKAS 31 *Interests in Joint Ventures*) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Changes in ownership interests in ~~acquisitions and disposals of~~ subsidiaries and other businesses ~~units~~[†]

39[†] **The aggregate cash flows arising from obtaining or losing control ~~acquisitions and from disposals~~ of subsidiaries or other businesses ~~units~~ shall be presented separately and classified as investing activities.**

40[†] **An entity shall disclose, in aggregate, in respect of both obtaining and losing control ~~acquisitions and disposals~~ of subsidiaries or other businesses ~~units~~ during the period each of the following:**

(a) **the total ~~purchase or disposal~~ consideration paid or received;**

(b) **the portion of the ~~purchase or disposal~~ consideration d~~ischarged by means~~ consisting of cash and cash equivalents;**

(c) **the amount of cash and cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed of~~ over which control is obtained or lost; and**

(d) **the amount of the assets and liabilities other than cash or cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed of~~ over which control is obtained or lost, summarised by each major category.**

41[†] The separate presentation of the cash flow effects of ~~acquisitions and disposals~~ obtaining or losing control of subsidiaries ~~and~~ or other businesses ~~units~~ as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of ~~disposals~~ losing control are not deducted from those of ~~acquisitions~~ obtaining control.

42[†] The aggregate amount of the cash paid or received as ~~purchase or sale~~ consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

42A[†] Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities.

42B[†] Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see HKAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)). Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

Non-cash transactions

43 **Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

[†] Amendments effective for annual periods beginning on or after 1 July 2009.

44 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the statement of cash flows is consistent with the objective of a statement of cash flows as these items do not involve cash flows in the current period. Examples of non-cash transactions are:

(a) the acquisition of assets either by assuming directly related liabilities or by means of a finance lease;

(b) the acquisition of an entity by means of an equity issue; and

(c) the conversion of debt to equity.

Components of cash and cash equivalents

45 An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in the ~~balance sheet~~ statement of financial position.

46 In view of the variety of cash management practices and banking arrangements around the world and in order to comply with HKAS 1 *Presentation of Financial Statements*, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

47 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Other disclosures

48 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group.

49 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the group. Examples include cash and cash equivalent balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the parent or other subsidiaries.

50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

(a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;

(b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;

(c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

(d) the amount of the cash flows arising from the operating, investing and financing activities of each ~~reported industry and geographical~~ reportable segment (see ~~HKAS 14 *Segment Reporting*~~ HKFRS 8 *Operating Segments*).

51 The separate disclosure of cash flows that represent increases in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the entity is investing adequately in the maintenance of its operating capacity. An entity that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners.

52 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

Effective date

53 This Hong Kong Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged.

54[♦] HKAS 27 (as amended in 2008) amended paragraphs 39 – 42 and added paragraphs 42A and 42B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period. The amendments shall be applied retrospectively.

55 Paragraph 14 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply paragraph 68A of HKAS 16.

56 Paragraph 16 was amended by *Improvements to HKFRSs* issued in May 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

♦ Amendments effective for annual periods beginning on or after 1 July 2009.

Appendix

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at December 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 7.

The International Accounting Standard comparable with HKAS 7 is IAS 7 *Statement of Cash Flows.*

There are no major textual differences between HKAS 7 and IAS 7.

Appendix A

Statement of cash flows for an entity other than a financial institution

This appendix accompanies, but is not part of, IAS 7.

1. The examples show only current period amounts. Corresponding amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements*.

2. Information from the ~~income statement~~ statement of comprehensive income and ~~balance sheet~~ statement of financial position is provided to show how the statements of cash flows under the direct method and indirect method have been derived. Neither the ~~income statement~~ statement of comprehensive income nor the ~~balance sheet~~ statement of financial position is presented in conformity with the disclosure and presentation requirements of other Standards.

3. The following additional information is also relevant for the preparation of the statements of cash flows:

   - all of the shares of a subsidiary were acquired for 590. The fair values of assets acquired and liabilities assumed were as follows:

Inventories	100
Accounts receivable	100
Cash	40
Property, plant and equipment	650
Trade payables	100
Long-term debt	200

   - 250 was raised from the issue of share capital and a further 250 was raised from long-term borrowings.
   - interest expense was 400, of which 170 was paid during the period. Also, 100 relating to interest expense of the prior period was paid during the period.
   - dividends paid were 1,200.
   - the liability for tax at the beginning and end of the period was 1,000 and 400 respectively. During the period, a further 200 tax was provided for. Withholding tax on dividends received amounted to 100.
   - during the period, the group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.
   - plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.
   - accounts receivable as at the end of 20X2 include 100 of interest receivable.

Consolidated statement of comprehensive income ~~Statement~~ for the period ended 20X2[(a)]

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expense	(400)
Investment income	500
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

Consolidated statement of financial position as at end of 20X2

		20X2		**20X1**
Assets				
Cash and cash equivalents		230		160
Accounts receivable		1,900		1,200
Inventory		1,000		1,950
Portfolio investments		2,500		2,500
Property, plant and equipment at cost	3,730		1,910	
Accumulated depreciation	(1,450)		(1,060)	
Property, plant and equipment net		2,280		850
Total assets		7,910		6,660
Liabilities				
Trade payables		250		1,890
Interest payable		230		100
Income taxes payable		400		1,000
Long term debt		2,300		1,040
Total liabilities		3,180		4,030
Shareholders' equity				
Share capital		1,500		1,250
Retained earnings		3,230		1,380
Total shareholders’ equity		4,730		2,630
Total liabilities and shareholders’ equity		7,910		6,660

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2.

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issuance of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Dividends paid*	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

* This could also be shown as an operating cash flow.

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from operating activities		
Profit before taxation	3,350	
Adjustments for:		
Depreciation	450	
Foreign exchange loss	40	
Investment income	(500)	
Interest expense	400	
	3,740	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
Cash generated from operations	2,550	
Interest paid	(270)	
Income taxes paid	(900)	
Net cash from operating activities		1,380
Cash flows from investing activities		
Acquisition of subsidiary X net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	200	
Net cash used in investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of finance lease liabilities	(90)	
Dividends paid*	(1,200)	
Net cash used in financing activities		(790)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

* This could also be shown as an operating cash flow.

Notes to the statement of cash flows (direct method and indirect method)

A. ~~Acquisition~~ Obtaining control of subsidiary[*]

During the period the Group ~~acquired~~ obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of subsidiary X acquired	(40)
Cash paid to obtain control ~~flow on acquisition~~, net of cash acquired	550

B. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with an aggregate cost of 1,250 of which 900 was acquired by means of finance leases. Cash payments of 350 were made to purchase property, plant and equipment.

C. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the statement of cash flows comprise the following ~~balance sheet~~ amounts in the statement of financial position:

	20X2	**20X1**
Cash on hand and balances with banks	40	25
Short-term investments	190	135
Cash and cash equivalents as previously reported	230	160
Effect of exchange rate changes	-	(40)
Cash and cash equivalents as restated	230	120

Cash and cash equivalents at the end of the period include deposits with banks of 100 held by a subsidiary that are not freely remissible to the holding company because of currency exchange restrictions.

The Group has undrawn borrowing facilities of 2,000, of which 700 may be used only for future expansion.

[*] Amendments effective for annual periods beginning on or after 1 July 2009.

D. Segment information

	Segment A	Segment B	Total
Cash flows from:			
Operating activities	1,520	(140)	1,380
Investing activities	(640)	160	(480)
Financing activities	(570)	(220)	(790)
	310	(200)	110

Alternative presentation (indirect method)

As an alternative, in an indirect method statement of cash flows, operating profit before working capital changes is sometimes presented as follows:

Revenues excluding investment income	30,650	
Operating expense excluding depreciation	(26,910)	
Operating profit before working capital changes		3,740

Appendix B

Statement of cash flows for a financial institution

This appendix accompanies, but is not part of, IAS 7.

1 The example shows only current period amounts. Comparative amounts for the preceding period are required to be presented in accordance with IAS 1 *Presentation of Financial Statements.*

2 The example is presented using the direct method.

		20X2
Cash flows from operating activities		
Interest and commission receipts	28,447	
Interest payments	(23,463)	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	4,224	
(Increase) decrease in operating assets:		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
Increase (decrease) in operating liabilities:		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income tax	3,440	
Income taxes paid	(100)	
Net cash from operating activities		3,340
Cash flows from investing activities		
Disposal of subsidiary Y	50	
Dividends received	200	
Interest received	300	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
Net cash from investing activities		650

continued …

… continued

Cash flows from financing activities		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
Net cash from financing activities		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		8,840

Basis for Conclusions on HKAS 7 *Statement of Cash Flows*

This Basis for Conclusions accompanies, but is not part of, HKAS 7.

HKAS 7 is based on IAS 7 *Statement of Cash Flows*. In approving HKAS 7, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 7. Accordingly, there are no significant differences between HKAS 7 and IAS 7. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 7 referred to below generally correspond with those in HKAS 7.

BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standards Board in reaching its conclusions on amending IAS 7 *Statement of Cash Flows* as part of *Improvements to IFRSs* issued in April 2009. Individual Board members gave greater weight to some factors than to others.

BC2 IAS 7 was developed by the International Accounting Standards Committee in 1992 and was not accompanied by a Basis for Conclusions. This Basis refers to clarification of guidance on classification of cash flows from investing activities.

Classification of expenditures on unrecognised assets

BC3 In 2008 the International Financial Reporting Interpretations Committee (IFRIC) reported to the Board that practice differed for the classification of cash flows for expenditures incurred with the objective of generating future cash flows when those expenditures are not recognised as assets in accordance with IFRSs. Some entities classified such expenditures as cash flows from operating activities and others classified them as investing activities. Examples of such expenditures are those for exploration and evaluation activities, which IFRS 6 *Exploration for and Evaluation of Mineral Resources* permits to be recognised as either an asset or an expense depending on the entity's previous accounting policies for those expenditures. Expenditures on advertising and promotional activities, staff training, and research and development could also raise the same issue.

BC4 The IFRIC decided not to add this issue to its agenda but recommended that the Board should amend IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activity.

BC5 In 2008, as part of its annual improvements project, the Board considered the principles in IAS 7, specifically guidance on the treatment of such expenditures in the statement of cash flows. The Board noted that even though paragraphs 14 and 16 of IAS 7 appear to be clear that only expenditure that results in the recognition of an asset should be classified as cash flows from investing activities, the wording is not definitive in this respect. Some might have misinterpreted the reference in paragraph 11 of IAS 7 for an entity to assess classification by activity that is most appropriate to its business to imply that the assessment is an accounting policy choice.

BC6 Consequently, in *Improvements to IFRSs* issued in April 2009, the Board removed the potential misinterpretation by amending paragraph 16 of IAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

BC7 The Board concluded that this amendment better aligns the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position, reduces divergence in practice and, therefore, results in financial statements that are easier for users to understand.

BC8 The Board also amended the Basis for Conclusions on IFRS 6 to clarify the Board's view that the exemption in IFRS 6 applies only to recognition and measurement of exploration and evaluation assets, not to the classification of related expenditures in the statement of cash flows, for the same reasons set out in paragraph BC7.

HKAS 8
Revised ~~October 2008~~January 2010

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong Accounting Standard 8

Accounting Policies, Changes in Accounting Estimates and Errors

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

COPYRIGHT

CONTENTS

APPENDICES~~X~~:

A Comparison with International Accounting Standards

B Amendments to other pronouncements

C Amendments resulting from other HKFRSs

BASIS FOR CONCLUSIONS

IMPLEMENTATION GUIDANCE

TABLE OF CONCORDANCE

Hong Kong Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (HKAS 8) is set out in paragraphs 1-56 and ~~the~~ Appendix C. All the paragraphs have equal authority. HKAS 8 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*.

Introduction

IN1 Hong Kong Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (HKAS 8) should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Reasons for issuing HKAS 8

IN2 The objectives of the Hong Kong Institute of Certified Public Accountants (HKICPA) issuing HKAS 8 were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For HKAS 8, the HKICPA's main objectives were:

(a) to remove the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors;

(b) to eliminate the concept of a fundamental error;

(c) to articulate the hierarchy of guidance to which management refers, whose applicability it considers when selecting accounting policies in the absence of Standards and Interpretations that specifically apply; and

(d) to define material omissions or misstatements, and describe how to apply the concept of materiality when applying accounting policies and correcting errors.

(e) [Not used]

IN4 [Not used]

The main features

IN5 The main features of HKAS 8 are described below.

Selection of accounting policies

IN6 The requirements for the selection and application of accounting policies in SSAP 1 *Presentation of Financial Statements* have been transferred to the Standard. The Standard updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of Hong Kong Financial Reporting Standards (HKFRSs) that specifically apply.

Materiality

IN7 The Standard defines material omissions or misstatements. It stipulates that:

(a) the accounting policies in HKFRSs need not be applied when the effect of applying them is immaterial. This complements the statement in HKAS 1 that disclosures required by HKFRSs need not be made if the information is immaterial.

(b) financial statements do not comply with HKFRSs if they contain material errors.

(c) material prior period errors are to be corrected retrospectively in the first set of financial statements authorised for issue after their discovery.

Voluntary changes in accounting policies and corrections of prior period errors

IN8 The Standard requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It removes the allowed alternative in SSAP 2:

(a) to include in profit or loss for the current period the adjustment resulting from changing an accounting policy or the amount of a correction of a prior period error; and

(b) to present unchanged comparative information from financial statements of prior periods.

IN9 As a result of the removal of the allowed alternative, comparative information for prior periods is presented as if new accounting policies had always been applied and prior period errors had never occurred.

Impracticability

IN10 The Standard retains the 'impracticability' criterion for exemption from changing comparative information when changes in accounting policies are applied retrospectively and prior period errors are corrected. The Standard now includes a definition of 'impracticable' and guidance on its interpretation.

IN11 The Standard also states that when it is impracticable to determine the cumulative effect, at the beginning of the current period, of:

(a) applying a new accounting policy to all prior periods, or

(b) an error on all prior periods,

the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable.

Fundamental errors

IN12 The Standard eliminates the concept of a fundamental error and thus the distinction between fundamental errors and other material errors. The Standard defines prior period errors.

Disclosures

IN13 The Standard now requires, rather than encourages, disclosure of an impending change in accounting policy when an entity has yet to implement a new HKFRS that has been issued but not yet come into effect. In addition, it requires disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS will have on the entity's financial statements in the period of initial application.

IN14 The Standard requires more detailed disclosure of the amounts of adjustments resulting from changing accounting policies or correcting prior period errors. It requires those disclosures to be made for each financial statement line item affected and, if HKAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

Others

IN15 The presentation requirements for profit or loss for the period have been transferred to HKAS 1.

IN16 The Standard requires that:

(a) an entity selects and applies its accounting policies consistently for similar transactions, other events and conditions, unless a HKFRS specifically requires or permits categorisation of items for which different policies may be appropriate; and

(b) if a HKFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category.

IN17 The Standard includes a definition of a change in accounting estimate.

IN18 The Standard includes exceptions from including the effects of changes in accounting estimates prospectively in profit or loss. It states that to the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, or relates to an item of equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Hong Kong Accounting Standard 8
Accounting Policies, Changes in Accounting Estimates and Errors

Objective

1 The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2 Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in HKAS 1 *Presentation of Financial Statements*.

Scope

3 This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with HKAS 12 *Income Taxes*.

Definitions

5 The following terms are used in this Standard with the meanings specified:

Accounting policies **are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.**

A *change in accounting estimate* **is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.**

Hong Kong Financial Reporting Standards (HKFRSs) **are Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:**

(a) Hong Kong Financial Reporting Standards;

(b) Hong Kong Accounting Standards; and

(c) Interpretations.

Material **omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions ~~of users taken~~ that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.**

Prior period errors **are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:**

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective application **is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.**

Retrospective restatement **is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.**

Impracticable **Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:**

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

(ii) would have been available when the financial statements for that prior period were authorised for issue

from other information.

Prospective application **of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:**

(a) **applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and**

(b) **recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.**

6 Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that 'users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.' Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Accounting policies

Selection and application of accounting policies

7 **When a ~~Standard or an Interpretation~~ HKFRS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the ~~Standard or Interpretation~~HKFRS. ~~and considering any relevant Implementation Guidance issued by the HKICPA for the Standard or Interpretation~~.**

8 HKFRSs set out accounting policies that the HKICPA has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from HKFRSs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

9 HKFRSs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of HKFRSs. ~~Implementation~~ Guidance that is an integral part of HKFRSs is mandatory. ~~for Standards issued by the HKICPA does not form part of those Standards, and therefore~~ Guidance that is not an integral part of HKFRSs does not contain requirements for financial statements.

10 **In the absence of a ~~Standard or an Interpretation~~ HKFRS that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:**

(a) **relevant to the economic decision-making needs of users; and**

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, ie free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

11 In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements ~~and guidance~~ in ~~Standards or Interpretations~~ HKFRSs dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

12 In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature[*] and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.

Consistency of accounting policies

13 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a ~~Standard or an Interpretation~~ HKFRS specifically requires or permits categorisation of items for which different policies may be appropriate. If a ~~Standard or an Interpretation~~ HKFRS requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

Changes in accounting policies

14 An entity shall change an accounting policy only if the change:

(a) is required by a ~~Standard or an Interpretation~~ HKFRS; or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

[*] In the context of Hong Kong, other accounting literature includes Accounting Guidelines and Accounting Bulletins.

15 Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 14.

16 The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.

17 The initial application of a policy to revalue assets in accordance with HKAS 16 *Property, Plant and Equipment* **or HKAS 38** *Intangible Assets* **is a change in an accounting policy to be dealt with as a revaluation in accordance with HKAS 16 or HKAS 38, rather than in accordance with this Standard.**

18 Paragraphs 19-31 do not apply to the change in accounting policy described in paragraph 17.

Applying changes in accounting policies

19 Subject to paragraph 23:

(a) an entity shall account for a change in accounting policy resulting from the initial application of a ~~Standard or an Interpretation~~ HKFRS in accordance with the specific transitional provisions, if any, in that ~~Standard or Interpretation~~ HKFRS; and

(b) when an entity changes an accounting policy upon initial application of a ~~Standard or an Interpretation~~ HKFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

20 For the purpose of this Standard, early application of a ~~Standard or an Interpretation~~ HKFRS is not a voluntary change in accounting policy.

21 In the absence of a ~~Standard or an Interpretation~~ HKFRS that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

22 Subject to paragraph 23, when a change in accounting policy is applied retrospectively in accordance with paragraph 19(a) or (b), the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application

23 **When retrospective application is required by paragraph 19(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

24 **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.**

25 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

26 When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing ~~balance sheets~~ statements of financial position for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of equity (for example, to comply with a HKFRS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

27 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 50-53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

28 **When initial application of a ~~Standard or an Interpretation~~HKFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) the title of the ~~Standard or Interpretation~~HKFRS;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if HKAS 33 *Earnings per Share* **applies to the entity, for basic and diluted earnings per share;**

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

29 **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if HKAS 33 applies to the entity, for basic and diluted earnings per share;

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30 **When an entity has not applied a new ~~Standard or Interpretation~~ HKFRS that has been issued but is not yet effective, the entity shall disclose:**

(a) **this fact; and**

(b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new ~~Standard or Interpretation~~ HKFRS will have on the entity's financial statements in the period of initial application.**

31 In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new ~~Standard or Interpretation~~ HKFRS;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the ~~Standard or Interpretation~~ HKFRS is required;

(d) the date as at which it plans to apply the ~~Standard or Interpretation~~HKFRS initially; and

(e) either:

(i) a discussion of the impact that initial application of the ~~Standard or Interpretation~~HKFRS is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in accounting estimates

32 As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:

(a) bad debts;

(b) inventory obsolescence;

(c) the fair value of financial assets or financial liabilities;

(d) the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets; and

(e) warranty obligations.

33 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

34 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

35 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

36 The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

38 Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

Disclosure

39 An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

40 If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.

Errors

41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with HKFRSs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period

are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42-47).

42 **Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:**

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Limitations on retrospective restatement

43 **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

44 **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

45 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

46 The correction of a prior period error is excluded from profit or loss for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.

47 When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date. Paragraphs 50-53 provide guidance on when it is impracticable to correct an error for one or more prior periods.

48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of prior period errors

49 In applying paragraph 42, an entity shall disclose the following:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction:

(i) for each financial statement line item affected; and

(ii) if HKAS 33 applies to the entity, for basic and diluted earnings per share;

(c) the amount of the correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in respect of retrospective application and retrospective restatement

50 In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 51-53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

51 It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the ~~balance sheet date~~ reporting period. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

(b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with HKAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective date

54 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

54a~~A~~ If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the same effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period.

Withdrawal of other pronouncements

55 This Standard supersedes SSAP 2 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*, revised in 2001.

56 [Not used]

Appendix A

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at 9 March 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 8.

The International Accounting Standard comparable with HKAS 8 is IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

There are no major textual differences between HKAS 8 and IAS 8.

Appendix B

Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

Appendix C

Amendments resulting from other HKFRSs

The following sets out amendments required for this Standard resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKFRS 9 *Financial Instruments* (issued in November 2009) - effective for annual periods beginning on or after 1 January 2013

Paragraph 53 is amended and paragraph 54A is added as follows:

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, ~~when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition,~~ when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with HKAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A HKFRS 9 *Financial Instruments*, issued in November 2009, amended paragraph 53. An entity shall apply that amendment when it applies HKFRS 9.

Basis for Conclusions on HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This Basis for Conclusions accompanies, but is not part of, HKAS 8.

HKAS 8 is based on IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In approving HKAS 8, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's basis for conclusions on IAS 8 (as revised 2003). Accordingly, there are no significant differences between HKAS 8 and IAS 8. The IASB's basis for conclusions is reproduced below for reference. The paragraph numbers of IAS 8 referred to below generally correspond with those in HKAS 8.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* in 2003. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 8. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 The Standard includes extensive changes to the previous version of IAS 8. The Board's intention was not to reconsider all of the previous Standard's requirements for selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of errors. Accordingly, this Basis for Conclusions does not discuss requirements in IAS 8 that the Board did not reconsider.

Removing allowed alternative treatments

BC4 The previous version of IAS 8 included allowed alternative treatments of voluntary changes in accounting policies (paragraphs 54-57) and corrections of fundamental errors (paragraphs 38-40). Under those allowed alternatives:

(a) the adjustment resulting from retrospective application of a change in an accounting policy was included in profit or loss for the current period; and

(b) the amount of the correction of a fundamental error was included in profit or loss for the current period.

BC5 In both circumstances, comparative information was presented as it was presented in the financial statements of prior periods.

BC6 The Board identified the removal of optional treatments for changes in accounting policies and corrections of errors as an important improvement to the previous version of IAS 8. The Standard removes the allowed alternative treatments and requires changes in accounting policies and corrections of prior period errors to be accounted for retrospectively.

BC7 The Board concluded that retrospective application made by amending the comparative information presented for prior periods is preferable to the previously allowed alternative treatments because, under the now required method of retrospective application:

(a) profit or loss for the period of the change does not include the effects of changes in accounting policies or errors relating to prior periods.

(b) information presented about prior periods is prepared on the same basis as information about the current period, and is therefore comparable. This information possesses a qualitative characteristic identified in the *Framework for the Preparation and Presentation of Financial Statements*, and provides the most useful information for trend analysis of income and expenses.

(c) prior period errors are not repeated in comparative information presented for prior periods.

BC8 Some respondents to the Exposure Draft argued that the previously allowed alternative treatments are preferable because:

(a) correcting prior period errors by restating prior period information involves an unjustifiable use of hindsight;

(b) recognising the effects of changes in accounting policies and corrections of errors in current period profit or loss makes them more prominent to users of financial statements; and

(c) each amount credited or debited to retained earnings as a result of an entity's activities has been recognised in profit or loss in some period.

BC9 The Board concluded that restating prior period information to correct a prior period error does not involve an unjustifiable use of hindsight because prior period errors are defined in terms of a failure to use, or misuse of, reliable information that was available when the prior period financial statements were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

BC10 The Board also concluded that the disclosures about changes in accounting policies and corrections of prior period errors in paragraphs 28, 29 and 49 of the Standard should ensure that their effects are sufficiently prominent to users of financial statements.

BC11 The Board further concluded that it is less important for each amount credited or debited to retained earnings as a result of an entity's activities to be recognised in profit or loss in some period than for the profit or loss for each period presented to represent faithfully the effects of transactions and other events occurring in that period.

Eliminating the distinction between fundamental errors and other material prior period errors

BC12 The Standard eliminates the distinction between fundamental errors and other material prior period errors. As a result, all material prior period errors are accounted for in the same way as a fundamental error was accounted for under the retrospective treatment in the previous version of IAS 8. The Board concluded that the definition of 'fundamental errors' in the previous version was difficult to interpret consistently because the main feature of the definition—that the error causes the financial statements of one or more prior periods no longer to be considered to have been reliable—was also a feature of all material prior period errors.

Applying a Standard or an Interpretation that specifically applies to an item

BC13 The Exposure Draft proposed that when a Standard or an Interpretation applies to an item in the financial statements, the accounting policy (or policies) applied to that item is (are) determined by considering the following in descending order:

(a) the Standard (including any Appendices that form part of the Standard);

(b) the Interpretation;

(c) Appendices to the Standard that do not form a part of the Standard; and

(d) Implementation Guidance issued in respect of the Standard.

BC14 The Board decided not to set out a hierarchy of requirements for these circumstances. The Standard requires only applicable ~~Standards and Interpretations~~ IFRSs to be applied. In addition, it does not mention Appendices.

BC15 The Board decided not to rank Standards above Interpretations because the definition of International Financial Reporting Standards (IFRSs) includes Interpretations, which are equal in status to Standards. The rubric to each Standard clarifies what material constitutes the requirements of an IFRS and what is Implementation Guidance[*]. The term 'Appendix' is retained only for material that is part of an IFRS.

Pronouncements of other standard-setting bodies

BC16 The Exposure Draft proposed that in the absence of a Standard or an Interpretation specifically applying to an item, management should develop and apply an accounting policy by considering, among other guidance, pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. Respondents to the Exposure Draft commented that this could *require* entities to consider the pronouncements of various other standard-setting bodies when IASB guidance does not exist. Some commentators argued that, for example, it could require consideration of all components of US GAAP on some topics. After considering these comments, the Board decided that the Standard should indicate that considering such pronouncements is voluntary (see paragraph 12 of the Standard).

[*] In 2007 the Board was advised that paragraphs 7 and 9 may appear to conflict, and may be misinterpreted to require mandatory consideration of Implementation Guidance. The Board amended paragraphs 7, 9 and 11 by *Improvements to IFRSs* issued in May 2008 to state that only guidance that is identified as an integral part of IFRSs is mandatory.

BC17 As proposed in the Exposure Draft, the Standard states that pronouncements of other standard-setting bodies are used only if they do not conflict with:

(a) the requirements and guidance in ~~Standards and Interpretations~~ IFRSs dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.

BC18 The Standard refers to the most recent pronouncements of other standard-setting bodies because if pronouncements are withdrawn or superseded, the relevant standard-setting body no longer thinks they include the best accounting policies to apply.

BC19 Comments received indicated that it was unclear from the Exposure Draft whether a change in accounting policy following a change in a pronouncement of another standard-setting body should be accounted for under the transitional provisions in that pronouncement. As noted above, the Standard does not mandate using pronouncements of other standard-setting bodies in any circumstances. Accordingly, the Board decided to clarify that such a change in accounting policy is accounted for and disclosed as a voluntary change in accounting policy (see paragraph 21 of the Standard). Thus, an entity is precluded from applying transitional provisions specified by the other standard-setting body if they are inconsistent with the treatment of voluntary changes in accounting policies specified by the Standard.

Materiality

BC20 The Standard states that accounting policies specified by IFRSs need not be applied when the effect of applying them is immaterial. It also states that financial statements do not comply with IFRSs if they contain material errors, and that material prior period errors are to be corrected in the first set of financial statements authorised for issue after their discovery. The Standard includes a definition of material omissions or misstatements, which is based on the description of materiality in ~~the previous version of~~ IAS 1 *Presentation of Financial Statements* (as issued in 1997) and in the *Framework*.

BC21 The former *Preface to Statements of International Accounting Standards* stated that International Accounting Standards were not intended to apply to immaterial items. There is no equivalent statement in the *Preface to International Financial Reporting Standards*. The Board received comments that the absence of such a statement from the *Preface* could be interpreted as requiring an entity to apply accounting policies (including measurement requirements) specified by IFRSs to immaterial items. However, the Board decided that the application of the concept of materiality should be in Standards rather than in the *Preface*.

BC22 The application of the concept of materiality is set out in two Standards. ~~The revised~~ IAS 1 ~~*Presentation of Financial Statements*~~ (as revised in 2007) continues to specify its application to disclosures. IAS 8 specifies the application of materiality in applying accounting policies and correcting errors (including errors in measuring items).

Criterion for exemption from requirements

BC23 The previous version of IAS 8 included an impracticability criterion for exemption from retrospective application of voluntary changes in accounting policies and retrospective restatement for fundamental errors, and from making related disclosures, when the allowed alternative treatment of those items was not applied. The Exposure Draft proposed instead an exemption from retrospective application and retrospective restatement when it gives rise to undue cost or effort.

BC24 In the light of comments received on the Exposure Draft, the Board decided that an exemption based on management's assessment of undue cost or effort is too subjective to be applied consistently by different entities. Moreover, the Board decided that balancing costs and benefits is a task for the Board when it sets accounting requirements rather than for entities when they apply those requirements. Therefore, the Board decided to retain the impracticability criterion for exemption in the previous version of IAS 8. This affects the exemptions in paragraphs 23-25, 39 and 43-45 of the Standard. Impracticability is the only basis on which specific exemptions are provided in ~~Standards and Interpretations~~ IFRSs from applying particular requirements when the effect of applying them is material.*

Definition of 'impracticable'

BC25 The Board decided to clarify the meaning of 'impracticable' in relation to retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error.

BC26 Some commentators suggested that retrospective application of a change in accounting policy and retrospective restatement to correct a prior period error are impracticable for a particular prior period whenever significant estimates are required as of a date in that period. However, the Board decided to specify a narrower definition of impracticable because the fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information. Thus, the Board decided that an inability to distinguish objectively information that both provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed and would have been available when the financial statements for that prior period were authorised for issue from other information is the factor that prevents reliable adjustment or correction of comparative information for prior periods (see part (c) of the definition of 'impracticable' and paragraphs 51 and 52 of the Standard).

BC27 The Standard specifies that hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts in a prior period. This is because management's intentions in a prior period cannot be objectively established in a later period, and using information that would have been unavailable when the financial statements for the prior period(s) affected were authorised for issue is inconsistent with the definitions of retrospective application and retrospective restatement.

* In 2006 the IASB issued IFRS 8 *Operating Segments*. As explained in paragraphs BC46 and BC47 of the Basis for Conclusions on IFRS 8, that IFRS includes an exemption from some requirements if the necessary information is not available and the cost to develop it would be excessive.

Applying the impracticability exemption

BC28 The Standard specifies that when it is impracticable to determine the cumulative effect of applying a new accounting policy to all prior periods, or the cumulative effect of an error on all prior periods, the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable (see paragraphs 25 and 45 of the Standard). This is similar to paragraph 52 of the previous version of IAS 8, but it is no longer restricted to changes in accounting policies. The Board decided to include such provisions in the Standard because it agrees with comments received that it is preferable to require prospective application from the start of the earliest period practicable than to permit a change in accounting policy only when the entity can determine the cumulative effect of the change for all prior periods at the beginning of the current period.

BC29 Consistently with the Exposure Draft's proposals, the Standard provides an impracticability exemption from retrospective application of changes in accounting policies, including retrospective application of changes made in accordance with the transitional provisions in ~~a Standard or an Interpretation~~ an IFRS. The previous version of IAS 8 specified the impracticability exemption for retrospective application of only *voluntary* changes in accounting policies. Thus, the applicability of the exemption to changes made in accordance with the transitional provisions in an ~~Standard or an Interpretation~~ IFRS depended on the text of that ~~Standard or Interpretation~~ IFRS. The Board extended the applicability of the exemption because it decided that the need for the exemption applies equally to all changes in accounting policies applied retrospectively.

Disclosures about impending application of newly issued ~~Standards and Interpretations~~ IFRSs

BC30 The Standard requires an entity to provide disclosures when it has not yet applied a new ~~Standard or Interpretation~~ IFRS that has been issued but is not yet effective. The entity is required to disclose that it has not yet applied the ~~Standard or Interpretation~~ IFRS, and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new ~~Standard or Interpretation~~ IFRS will have on the entity's financial statements in the period of initial application (paragraph 30). The Standard also includes guidance on specific disclosures the entity should consider when applying this requirement (paragraph 31).

BC31 Paragraphs 30 and 31 of the Standard differ from the proposals in the Exposure Draft in the following respects:

(a) they specify that an entity needs to disclose information only if it is known or reasonably estimable. This clarification responds to comments on the Exposure Draft that the proposed disclosures would sometimes be impracticable.

(b) whereas the Exposure Draft proposed to mandate the disclosures now in paragraph 31, the Standard sets out these disclosures as items an entity should consider disclosing to meet the general requirement in paragraph 30. This amendment focuses the requirement on the objective of the disclosure, and, in response to comments on the Exposure Draft that the proposed disclosures were more onerous than the disclosures in US GAAP, clarifies that the Board's intention was to converge with US requirements, rather than to be more onerous.

Recognising the effects of changes in accounting estimates

BC32 The Exposure Draft proposed to retain without exception the requirement in the previous version of IAS 8 that the effect of a change in accounting estimate is *recognised in profit or loss* in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

BC33 Some respondents to the Exposure Draft disagreed with requiring the effects of all changes in accounting estimates to be recognised in profit or loss. They argued that this is inappropriate to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, because the entity's equity does not change as a result. These commentators also argued that it is inappropriate to preclude recognising the effects of changes in accounting estimates directly in equity when that is required or permitted by a Standard or an Interpretation. The Board concurs, and decided to provide an exception to the requirement described in paragraph BC32 for these circumstances.

Guidance on Implementing IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

This guidance accompanies, but is not part of, IAS 8.

Example 1 – Retrospective restatement of errors

1.1 During 20X2, Beta Co discovered that some products that had been sold during 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500.*

1.2 Beta's accounting records for 20X2 show sales of CU104,000, cost of goods sold of CU86,500 (including CU6,500 for the error in opening inventory), and income taxes of CU5,250.

1.3 In 20X1, Beta reported:

	CU
Sales	73,500
Cost of goods sold	(53,500)
Profit before income taxes	20,000
Income taxes	(6,000)
Profit	14,000

1.4 20X1 opening retained earnings was CU20,000 and closing retained earnings was CU34,000.

1.5 Beta's income tax rate was 30 per cent for 20X2 and 20X1. It had no other income or expenses.

1.6 Beta had CU5,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.

Beta Co
Extract from the statement of comprehensive income

	20X2 CU	(restated) 20X1 CU
Sales	104,000	73,500
Cost of goods sold	(80,000)	(60,000)
Profit before income taxes	24,000	13,500
Income taxes	(7,200)	(4,050)
Profit	16,800	9,450

continued…

* In these examples, monetary amounts are denominated in 'currency units' (CU).

continued…

Beta Co
Statement of changes in equity

	Share capital	Retained earnings	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Profit for the year ended 31 December 20X1 as restated		9,450	9,450
Balance at 31 December 20X1	5,000	29,450	34,450
Profit for the year ended 31 December 20X2		16,800	16,800
Balance at 31 December 20X2	5,000	46,250	51,250

Extracts from the notes

1. Some products that had been sold in 20X1 were incorrectly included in inventory at 31 December 20X1 at CU6,500. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 20X2.

	Effect on 20X1
	CU
(Increase) in cost of goods sold	(6,500)
Decrease in income tax expense	1,950
(Decrease) in profit	(4,550)
(Decrease) in inventory	(6,500)
Decrease in income tax payable	1,950
(Decrease) in equity	(4,550)

Example 2 – Change in accounting policy with retrospective application

[Deleted]

~~2.1 During 20-2, Gamma Co changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station under construction for use by Gamma. In previous periods, Gamma had capitalised such costs. Gamma has now decided to treat these costs as an expense, rather than capitalise them. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making Gamma's financial statements more comparable.~~

~~2.2 Gamma capitalised borrowing costs incurred of CU2,600 during 20-1 and CU5,200 in periods before 20-1. All borrowing costs incurred in previous years in respect of the acquisition of the power station were capitalised.~~

~~2.3 Gamma's accounting records for 20-2 show profit before interest and income taxes of CU30,000; interest expense of CU3,000 (which relates only to 20-2); and income taxes of CU8,100.~~

~~2.4 Gamma has not yet recognised any depreciation on the power station because it is not yet in use.~~

~~2.5 In 20-1, Gamma reported:~~

	~~CU~~
~~Profit before interest and income taxes~~	~~18,000~~
~~Interest expense~~	~~-~~
~~Profit before income taxes~~	~~18,000~~
~~Income taxes~~	~~(5,400)~~
~~Profit~~	~~12,600~~

~~2.6 20-1 opening retained earnings was CU20,000 and closing retained earnings was CU32,600.~~

~~2.7 Gamma's tax rate was 30 per cent for 20-2, 20-1 and prior periods.~~

~~2.8 Gamma had CU10,000 of share capital throughout, and no other components of equity except for retained earnings. Its shares are not publicly traded and it does not disclose earnings per share.~~

~~Gamma Co~~
~~Extract from the Income Statement~~

		~~(restated)~~
	~~20-2~~	~~20-1~~
	~~CU~~	~~CU~~
~~Profit before interest and income taxes~~	~~30,000~~	~~18,000~~
~~Interest expense~~	~~(3,000)~~	~~(2,600)~~
~~Profit before income taxes~~	~~27,000~~	~~15,400~~
~~Income taxes~~	~~(8,100)~~	~~(4,620)~~
~~Profit~~	~~18,900~~	~~10,780~~

~~Gamma Co~~
~~Statement of Changes in Equity~~

	~~Share capital~~	~~(restated) Retained earnings~~	~~Total~~
	~~CU~~	~~CU~~	~~CU~~
~~Balance at 31 December 20-0 as previously reported~~	~~10,000~~	~~20,000~~	~~30,000~~
~~Change in accounting policy for the capitalisation of interest (net of income taxes of CU1,560) (Note 1)~~		~~(3,640)~~	~~(3,640)~~
~~Balance at 31 December 20-0 as restated~~	~~10,000~~	~~16,360~~	~~26,360~~
~~Profit for the year ended 31 December 20-1 (restated)~~		~~10,780~~	~~10,780~~
~~Balance at 31 December 20-1~~	~~10,000~~	~~27,140~~	~~37,140~~
~~Profit for the year ended 31 December 20-2~~		~~18,900~~	~~18,900~~
~~Balance at 31 December 20-2~~	~~10,000~~	~~46,040~~	~~56,040~~

~~Extracts from the Notes~~

~~1 During 20-2, Gamma changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station under construction for use by Gamma. Previously, Gamma capitalised such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making Gamma's financial statements more comparable. This change in accounting policy has been accounted for retrospectively, and the comparative statements for 20-1 have been restated. The effect of the change on 20-1 is tabulated below. Opening retained earnings for 20-1 have been reduced by CU3,640, which is the amount of the adjustment relating to periods prior to 20-1.~~

~~Effect on 20-1~~	~~CU~~
~~(Increase) in interest expense~~	~~(2,600)~~
~~Decrease in income tax expense~~	~~780~~
~~(Decrease) in profit~~	~~(1,820)~~
~~Effect on periods prior to 20-1~~	
~~(Decrease) in profit (CU5,200 interest expense less tax of CU1,560)~~	~~(3,640)~~
~~(Decrease) in assets in the course of construction and in retained earnings at 31 December 20-1~~	~~(5,460)~~

Example 3 - Prospective application of a change in accounting policy when retrospective application is not practicable

3.1 During 20X2, Delta Co changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

3.2 In years before 20X2, Delta's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3 Delta's management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Delta's new policy prospectively from the start of 20X2.

3.4 Additional information:

Delta's tax rate is 30 per cent.

	CU
Property, plant and equipment at the end of 20X1:	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey:	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

continued…

continued…

Extract from the notes

1 From the start of 20X2, Delta changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; increase the opening deferred tax provision by CU1,800; create a revaluation reserve at the start of the year of CU4,200; increase depreciation expense by CU500; and reduce tax expense by CU150.

Table of Concordance

This table shows how the contents of the superseded SSAP 2 and the current HKAS 8 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded SSAP 2 paragraph	**Current HKAS 8 paragraph**
Objective	1
1	3
2	55
3	2
4	None
5	5
6	(HKAS 1.78)
7	(HKAS 1.79)
8	(HKAS 1.80)
9	(HKAS 1.85)
10	None
11	None
12	None
13	None
14	None
15	(HKAS 1.86)
16	None
17	(HKAS 1.87)
18	None
19	None
20	None
21	None
22	32, 33
23	34

Superseded SSAP 2 paragraph	**Current HKAS 8 paragraph**
24	35
25	36
26	38
27	None
28	None
29	39, 40
30	41
31	41
32	48
33	42
34	46
35	None
36	49
37	15
38	14
39	14
40	16-18
41	None
42	19
43	None
44	30, 31
45	22, 23

Superseded SSAP 2 paragraph	**Current HKAS 8 paragraph**
46	26
47	None
48	24, 25
49	28, 29
50	54
Appendix	Guidance on Implementing HKAS 8

Superseded SSAP 2 paragraph	**Current HKAS 8 paragraph**
None	4
None	6
None	7-12
None	13
None	20, 21
None	27
None	37
None	43-45
None	47
None	50-53
None	56

HKAS 10
Revised ~~December 2008~~ January 2010

Hong Kong Accounting Standard 10

Events after the Reporting Period

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

CONTENTS

Hong Kong Accounting Standard 10 *Events after the Reporting Period* (HKAS 10) is set out in paragraphs 1-24 ~~and the Appendix~~. All the paragraphs have equal authority. HKAS 10 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.

Introduction

IN1 Hong Kong Accounting Standard 10 *Events after the Reporting Period* (HKAS 10)* should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Reasons for issuing HKAS 10

IN2 The objectives of the Hong Kong Institute of Certified Public Accountants (HKICPA) issuing HKAS 10 were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For HKAS 10 the HKICPA's main objective was a limited clarification of the accounting for dividends declared after the reporting period. The HKICPA did not reconsider the fundamental approach to the accounting for events after the reporting period contained in HKAS 10.

The main features

IN4 HKAS 10 states that if an entity declares dividends after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.

* As a consequence of the revision of HKAS 1 *Presentation of Financial Statements* in December 2007, the title of HKAS 10 was amended from *Events after the Balance Sheet Date* to *Events after the Reporting Period.*

Hong Kong Accounting Standard 10
~~Events after the Balance Sheet *Date*~~*Events after the Reporting Period*

Objective

1 The objective of this Standard is to prescribe:

(a) when an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

2 This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Definitions

3 The following terms are used in this Standard with the meanings specified:

Events after the ~~balance sheet date~~ reporting period **are those events, favourable and unfavourable, that occur between the ~~balance sheet date~~ end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:**

(a) those that provide evidence of conditions that existed at the ~~balance sheet date~~ end of the reporting period (*adjusting events after the reporting period***); and**

(b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the ~~balance sheet date~~ reporting period***).**

4 The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5 In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements.

Example

The management of an entity completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorises them for issue. The entity announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of board authorisation for issue).

6 In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

Example

On 18 March 20X2, the management of an entity authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of management authorisation for issue to the supervisory board).

7 Events after the ~~balance sheet date~~ reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and Measurement

Adjusting events after the ~~balance sheet date~~ reporting period

8 An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the ~~balance sheet date~~ reporting period.

9 The following are examples of adjusting events after the ~~balance sheet date~~ reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the ~~balance sheet date~~ reporting period of a court case that confirms that the entity had a present obligation at the ~~balance sheet date~~ end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of HKAS 37.

(b) the receipt of information after the ~~balance sheet date~~ reporting period indicating that an asset was impaired at the ~~balance sheet date~~ end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer that occurs after the ~~balance sheet date~~ reporting period usually confirms that a loss existed at the ~~balance sheet date~~ end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(ii) the sale of inventories after the ~~balance sheet date~~ reporting period may give evidence about their net realisable value at the ~~balance sheet date~~ end of the reporting period.

(c) the determination after the ~~balance sheet date~~ reporting period of the cost of assets purchased, or the proceeds from assets sold, before the ~~balance sheet date~~ end of the reporting period.

(d) the determination after the ~~balance sheet date~~ reporting period of the amount of profit sharing or bonus payments, if the entity had a present legal or constructive obligation at the ~~balance sheet date~~ end of the reporting period to make such payments as a result of events before that date (see HKAS 19 *Employee Benefits*).

(e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the ~~balance sheet date~~ reporting period

10 An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the ~~balance sheet date~~ reporting period.

11 An example of a non-adjusting event after the ~~balance sheet date~~ reporting period is a decline in market value of investments between the ~~balance sheet date~~ end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the ~~balance sheet date~~ end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the ~~balance sheet date~~ end of the reporting period, although it may need to give additional disclosure under paragraph 21.

Dividends

12 If an entity declares dividends to holders of equity instruments (as defined in HKAS 32 *Financial Instruments: ~~Disclosure and~~ Presentation***) after the ~~balance sheet date~~ reporting period, the entity shall not recognise those dividends as a liability at the ~~balance sheet date~~ end of the reporting period.**

13[†] If dividends are declared ~~(ie the dividends are appropriately authorised and no longer at the discretion of the entity)~~ after the ~~balance sheet date~~ reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the ~~balance sheet date~~end of the reporting period because ~~they do not meet the criteria of a present obligation in HKAS 37~~ no obligation exists at that time. Such dividends are disclosed in the notes ~~to the financial statements~~ in accordance with HKAS 1 *Presentation of Financial Statements*[*].

Going Concern

14 An entity shall not prepare its financial statements on a going concern basis if management determines after the ~~balance sheet date~~ reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

15 Deterioration in operating results and financial position after the ~~balance sheet date~~ reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

16 HKAS 1 specifies required disclosures if:

(a) the financial statements are not prepared on a going concern basis; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the ~~balance sheet date~~reporting period.

Disclosure

Date of authorisation for issue

17 An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

[†] Amendments effective for annual periods beginning on or after 1 July 2009.

[*] For Hong Kong incorporated companies, please also refer to the legal requirements as set out in ~~the footnotes to paragraphs 95 and 125 of~~ Appendix of HKAS 1 (revised in December 2007) and the example on the disclosure of proposed dividend as attached to HKAS 1.

18 It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the end of the ~~balance sheet date~~ reporting period

19 If an entity receives information after the ~~balance sheet date~~ reporting period about conditions that existed at the ~~balance sheet date~~ end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

20 In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the ~~balance sheet date~~ reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the ~~balance sheet date~~ reporting period about a contingent liability that existed at the ~~balance sheet date~~ end of the reporting period. In addition to considering whether it should recognise or change a provision under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting events after the ~~balance sheet date~~ reporting period

21 If non-adjusting events after the ~~balance sheet date~~ reporting period are material, non-disclosure could influence the economic decisions ~~of users taken~~ that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the ~~balance sheet date~~ reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

22 The following are examples of non-adjusting events after the ~~balance sheet date~~ reporting period that would generally result in disclosure:

(a) a major business combination after the ~~balance sheet date~~ reporting period (HKFRS 3 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation,

(c) major purchases of assets, classification of assets as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* other disposals of assets, or expropriation of major assets by government.

(d) the destruction of a major production plant by a fire after the ~~balance sheet date~~ reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see HKAS 37);

(f) major ordinary share transactions and potential ordinary share transactions after the ~~balance sheet date~~ reporting period (HKAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under HKAS 33);

(g) abnormally large changes after the ~~balance sheet date~~ reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the ~~balance sheet date~~ reporting period that have a significant effect on current and deferred tax assets and liabilities (see HKAS 12 *Income Taxes*);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the ~~balance sheet date~~ reporting period.

Effective date

23 **An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.**

23a~~A~~ If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period.

Withdrawal of SSAP 9 (revised 2001)

24 This Standard supersedes SSAP 9 *Events After the Balance Sheet Date* revised in 2001.

Appendix A

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at 9 March 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 10.

The International Accounting Standard comparable with HKAS 10 is IAS 10 *Events after the Reporting Period*.

There are no major textual differences between HKAS 10 and IAS 10.

Appendix B

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

Basis for Conclusions on HKAS 10 *Events after the Reporting Period*[*]

This Basis for Conclusions accompanies, but is not part of, HKAS 10.

HKAS 10 is based on IAS 10, *Events after the ~~Balance Sheet Date~~Reporting Period*. In approving HKAS 10, the Council of the Hong Kong ~~Society of Accountants~~Institute of Certified Public Accountants considered and agreed with the IASB's basis for conclusions on IAS 10 (as revised 2003). Accordingly, there are no significant differences between HKAS 10 and IAS 10. The IASB's basis for conclusions is reproduced below for reference. The paragraph numbers of IAS 10 referred to below generally correspond with those in HKAS 10.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 10 *Events After the Balance Sheet Date* in 2003. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 10. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for events after the balance sheet date established by IAS 10, this Basis for Conclusions does not discuss requirements in IAS 10 that the Board has not reconsidered.

Limited Clarification

BC4 For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date,[+] an entity shall not recognise those dividends as a liability at the balance sheet date. This is because undeclared dividends do not meet the criteria of a present obligation in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board discussed whether or not an entity's past practice of paying dividends could be considered a constructive obligation. The Board concluded that such practices do not give rise to a liability to pay dividends.[¢]

[*] In September 2007 the IASB amended the title of IAS 10 from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the amendments in IAS 1 *Presentation of Financial Statements* (as revised in 2007).

[+] IAS 1 *Presentation of Financial Statements* (as revised in 2007) replaced the term 'balance sheet date' with 'end of the reporting period'.

[¢] In 2007 the Board was advised that paragraph 13, taken in isolation, could be read to imply that a liability should be recognised in some circumstances on the basis that a constructive obligation exists, such as when there is an established pattern of paying a dividend. Therefore, the Board amended paragraph 13 by *Improvements to IFRSs* issued in May 2008 to state that no such obligation exists.

Table of Concordance

This table shows how the contents of the superseded SSAP 9 and the current HKAS 10 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded SSAP 9 paragraph	Current HKAS 10 paragraph
Objective	1
1	2
2	3
3	4
4	5
5	6
6	7
7	8
8	9
9	10
10	11
11	12
12	13

Superseded SSAP 9 paragraph	Current HKAS 10 paragraph
13	14
14	15
15	16
16	17
17	18
18	19
19	20
20	21
21	22
22	23
23	None
None	24

IN8 Accordingly, in November 2009 the HKICPA issued the chapters of HKFRS 9 relating to the classification and measurement of financial assets. HKFRS 9 addressed those matters first because they form the foundation of a standard on reporting financial instruments. Moreover, many of the concerns expressed during the financial crisis arose from the classification and measurement requirements for financial assets in HKAS 39.

IN9 The HKICPA sees this first instalment on classification and measurement of financial assets as a stepping stone to future improvements in the financial reporting of financial instruments and is committed to completing its work on classification and measurement of financial instruments expeditiously.

Main features of the HKFRS

IN10 Chapters 4 and 5 of HKFRS 9 specify how an entity should classify and measure financial assets, including some hybrid contracts. They require all financial assets to be:

(a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

(b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs.

(c) subsequently measured at amortised cost or fair value.

IN11 These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of HKAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in HKAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in HKAS 39 that arise from the different classification categories.

Next steps

IN12 HKFRS 9 is the first part of Phase 1 of the project to replace HKAS 39. The main phases are:

(a) Phase 1: Classification and measurement. The exposure draft *Financial Instruments: Classification and Measurement*, published in July 2009, contained proposals for both assets and liabilities within the scope of HKAS 39. Requirements for financial liabilities will be included in HKFRS 9 in due course.

(b) Phase 2: Impairment methodology. The request for Information on the feasibility of an expected loss model for the impairment of financial assets was published on 25 June 2009. This formed the basis of an exposure draft, *Financial Instruments: Amortised Cost and Impairment*, published in November 2009 with a comment deadline of 30 June 2010. An expert advisory panel will be set up by the IASB to address the operational issues arising from an expected cash flow approach.

(c) Phase 3: Hedge accounting. The project for considering how to improve and simplify the hedge accounting requirements of HKAS 39 has started and the proposals are expected to be published shortly.

IN13 In addition to those three phases, an exposure draft *Derecognition* (proposed amendments to HKAS 39 and HKFRS 7 *Financial Instruments: Disclosures*) was published in March 2009. Redeliberations are under way and the project is expected to be completed in the second half of 2010.

Chapter 8 Effective date and transition

8.1 Effective date

8.1.1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this HKFRS in its financial statements for a period beginning before 1 January 2013, it shall disclose that fact and at the same time apply the amendments in Appendix C.

8.2 Transition

8.2.1 An entity shall apply this HKFRS retrospectively, in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 8.2.4–8.2.13. This HKFRS shall not be applied to financial assets that have already been derecognised at the date of initial application.

8.2.2 For the purposes of the transition provisions in paragraphs 8.2.1 and 8.2.3–8.2.13, the date of initial application is the date when an entity first applies the requirements of this HKFRS. The date of initial application may be:

(a) any date between the issue of this HKFRS and 31 December 2010, for entities initially applying this HKFRS before 1 January 2011; or

(b) the beginning of the first reporting period in which the entity adopts this HKFRS, for entities initially applying this HKFRS on or after 1 January 2011.

8.2.3 If the date of initial application is not at the beginning of a reporting period, the entity shall disclose that fact and the reasons for using that date of initial application.

8.2.4 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.2(a) on the basis of the facts and circumstances that exist at the date of initial application. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.

8.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.4 or paragraph 4.5 but the fair value of the hybrid contract had not been determined in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.

8.2.6 At the date of initial application, an entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application:

(a) in the opening retained earnings of the reporting period of initial application if the entity initially applies this HKFRS at the beginning of a reporting period; or

(b) in profit or loss if the entity initially applies this HKFRS during a reporting period.

8.2.7 At the date of initial application, an entity may designate:

(a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.5; or

Appendix A
Defined terms

This appendix is an integral part of the HKFRS.

reclassification date	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

The following terms are defined in paragraph 11 of HKAS 32 *Financial Instruments: Presentation* or paragraph 9 of HKAS 39 and are used in this HKFRS with the meanings specified in HKAS 32 or HKAS 39:

(a) amortised cost of a financial asset or financial liability

(b) derivative

(c) effective interest method

(d) equity instrument

(e) fair value

(f) financial asset

(g) financial instrument

(h) financial liability

(i) hedged item

(j) hedging instrument

(k) held for trading

(l) regular way purchase or sale

(m) transaction costs.

B4.11 Contractual provisions that permit the issuer or holder to extend the contractual term of a debt instrument (ie an extension option) result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding only if:

(a) the provision is not contingent on future events, other than to protect:

(i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or

(ii) the holder or issuer against changes in relevant taxation or law; and

(b) the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding.

B4.12 A contractual term that changes the timing or amount of payments of principal or interest does not result in contractual cash flows that are solely principal and interest on the principal amount outstanding unless it:

(a) is a variable interest rate that is consideration for the time value of money and the credit risk (which may be determined at initial recognition only, and so may be fixed) associated with the principal amount outstanding; and

(b) if the contractual term is a prepayment option, meets the conditions in paragraph B4.10; or

(c) if the contractual term is an extension option, meets the conditions in paragraph B4.11.

B4.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	**Analysis**
Instrument A Instrument A is a bond with a stated maturity date. Payments of principal and interest on the principal amount outstanding are linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged and the principal is protected.	The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects ‘real’ interest. Thus, the interest amounts are consideration for the time value of money on the principal amount outstanding. However, if the interest payments were indexed to another variable such as the debtor’s performance (eg the debtor’s net income) or an equity index, the contractual cash flows are not payments of principal and interest on the principal amount outstanding. That is because the interest payments are not consideration for the time value of money and for credit risk associated with the principal amount outstanding. There is variability in the contractual interest payments that is inconsistent with market interest rates.

Instrument	Analysis
Instrument B Instrument B is a variable interest rate instrument with a stated maturity date that permits the borrower to choose the market interest rate on an ongoing basis. For example, at each interest rate reset date, the borrower can choose to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term.	The contractual cash flows are solely payments of principal and interest on the principal amount outstanding as long as the interest paid over the life of the instrument reflects consideration for the time value of money and for the credit risk associated with the instrument. The fact that the LIBOR interest rate is reset during the life of the instrument does not in itself disqualify the instrument. However, if the borrower is able to choose to ~~receive~~pay one-month LIBOR for three months and that one-month LIBOR is not reset each month, the contractual cash flows are not payments of principal and interest. The same analysis would apply if the borrower is able to choose between the lender's published one-month variable interest rate and the lender's published three-month variable interest rate. However, if the instrument has a contractual interest rate that is based on a term that exceeds the instrument's remaining life, its contractual cash flows are not payments of principal and interest on the principal amount outstanding. For example, a constant maturity bond with a five-year term that pays a variable rate that is reset periodically but always reflects a five-year maturity does not result in contractual cash flows that are payments of principal and interest on the principal amount outstanding. That is because the interest payable in each period is disconnected from the term of the instrument (except at origination).

Comparative information

BC106 As noted above, many respondents were concerned that the inevitable exceptions to full retrospective application would result in restated information that is incomplete. They proposed an approach similar to that used on first-time adoption of IFRSs and when entities adopted IAS 39 in 2005, in which the requirement to provide comparative information was waived. Some respondents believe that such an approach would address the concerns that, although IAS 1 requires only one year of comparative information, the legal and regulatory frameworks in many jurisdictions require further comparative periods to be presented. In those situations, the restatement of comparatives would be virtually impossible for an entity wishing to adopt IFRS 9 early.

BC107 In the Board's view, waiving the requirement to restate comparatives strikes a balance between the conceptually preferable method of full retrospective application (as stated in IAS 8) and the practicability of adopting the new classification model within a short time frame. Accordingly, the Board decided that it would permit, but not require, restatement of comparative periods by entities that implement IFRS 9 for reporting periods beginning before 1 January 2012. However, those considerations would be less applicable for entities that adopted outside a short time frame. Therefore, restated comparative information is required if an entity adopts IFRS 9 for reporting periods beginning after 1 January 2012.

Date of initial application

BC108 The exposure draft stated that the date of initial application would be the date when an entity first applies the requirements in the IFRS. Many respondents questioned whether the date of initial application could be an arbitrary date between the date of issue of the IFRS (or even earlier) and the mandatory effective date, resulting in a loss of comparability over a long period of time. The Board agreed that a free choice would impair comparability, but noted it intended that entities should be able to apply the IFRS in 2009 or 2010 financial statements. Accordingly, the IFRS requires the date of initial application to be the beginning of a reporting period, but provides relief from this requirement for entities applying the IFRS for reporting periods beginning on or before 1 January 2011.

Hedge accounting

BC109 The Board decided not to carry forward the specific transition provisions on hedge accounting proposed in the exposure draft because they are not necessary.

Transitional disclosures

BC110 The exposure draft proposed disclosures for entities that apply the new IFRS 9 early. However, many noted that such disclosures would be useful for all entities applying IFRS 9 for the first time, and not only early adopters. The Board noted that the information necessary to make those disclosures would be readily available to the entity to make the necessary journal entries on transition and to account for the financial assets in the future. Accordingly, IFRS 9 requires all entities to supply additional disclosures on transition.

BC111 The Board rejected a proposal in the comment letters that entities should apply disclosures similar to those based on IFRS 1 *First-~~T~~time Adoption of International Financial Reporting Standards* explaining the transition to the new IFRS. The Board noted that the disclosures in IFRS 1 relate to first-time adoption and not to changes in accounting policies. Disclosures about changes in an accounting policy are required by IAS 8.

Transition for future phases

BC112 The Board does not intend to require entities that apply IFRS 9 early also to apply early any future requirements arising from the project to improve IAS 39. However, to reduce the number of versions of IFRSs that can be applied, the Board intends that any future additions to IFRS 9 can be applied only if the entity also applies requirements published before them.

Transitional insurance issues

BC113 The Board noted that insurers may face particular problems if they apply IFRS 9 before they apply the phase II standard on insurance contracts ('the new IFRS 4'). To avoid accounting mismatches in profit or loss, many insurers classify many of their financial assets as available for sale. If those insurers apply IFRS 9 before the new IFRS 4, they might decide to classify many of their financial assets at amortised cost (assuming they meet the relevant conditions in IFRS 9). When those insurers later apply the new IFRS 4, they may wish to reclassify those assets from amortised cost to fair value through profit or loss, but that may not generally be possible in accordance with IFRS 9. Thus, those insurers might have either to classify those assets at fair value through profit or loss during the intervening period or to continue to classify them at amortised cost when they apply the new IFRS 4. Either choice might lead to an accounting mismatch.

BC114 The Board considered whether it could reduce such mismatches by maintaining the available-for-sale category for insurers until they can apply the new IFRS 4. However, if the Board did so, it would have to create detailed and arbitrary descriptions of the entities and instruments to which that approach would apply. The Board concluded that permitting the continuation of that category would not provide more useful information for users.

BC115 The Board will consider in developing the new IFRS 4 whether to provide an option for insurers to reclassify some or all financial assets when they first apply the new IFRS 4. This would be similar to the option in paragraph 45 of IFRS 4 *Insurance Contracts* and paragraph D4 of IFRS 1. The Board included such an option in IFRS 4 for reasons that may be equally valid for phase II.

Shadow accounting for participating contracts

BC116 Some insurers expressed concerns that an accounting mismatch will arise if the assets backing participating insurance liabilities include equity investments and the insurer elects to present gains and losses on those investments in other comprehensive income. That accounting mismatch would arise because paragraph 30 of IFRS 4 does not give explicit authority to apply 'shadow accounting' in such cases.

BC117 The Board acknowledges that this accounting mismatch is undesirable. However, for the following reasons, the Board did not amend paragraph 30 of IFRS 4:

(a) This accounting mismatch will arise only if an insurer elects to present gains and losses on equity investments in other comprehensive income.

(b) As described in paragraph BC84, in creating the option to present gains and losses on equity investments in other comprehensive income, the Board's intention was to provide a presentation alternative for some equity investments in which presenting fair value gains and losses in profit or loss may not be indicative of the performance of the entity, particularly if the entity holds those equity instruments for non-contractual benefits, rather than primarily to generate increases in the value of the investment. The Board did not intend to provide an alternative for investments in any other circumstances, including if an entity intends to hold an equity investment over a long time frame. In the Board's view, if an insurer holds investments with the primary objective of realising a profit from increases in their value, for the benefit of either the insurer itself or its policyholders, the most transparent place to present those value changes is in profit or loss.

Summary of main changes from the exposure draft

BC118 The main changes from the exposure draft are:

(a) At this stage, IFRS 9 deals with the classification and measurement of financial assets only, rather than financial assets and financial liabilities as proposed in the exposure draft.

(b) IFRS 9 requires entities to classify financial assets on the basis of the objective of the entity's business model for managing the financial assets and the characteristics of the contractual cash flows. It points out that the entity's business model should be considered first, and that the contractual cash flow characteristics should be considered only for financial assets that are eligible to be measured at amortised cost because of the business model. It states that both classification conditions are essential to ensure that amortised cost provides useful information.

(c) Additional application guidance has been added on how to apply the conditions necessary for amortised cost measurement.

(d) IFRS 9 requires a 'look through' approach for investments in contractually linked instruments that effect concentrations of credit risk. The exposure draft had proposed that only the most senior tranche could have cash flows that represented payments of principal and interest on the principal amount outstanding.

(e) IFRS 9 requires (unless the fair value option is elected) financial assets purchased in the secondary market to be recognised at amortised cost if the instruments are managed within a business model that has an objective of collecting contractual cash flows and the financial asset has only contractual cash flows representing principal and interest on the principal amount outstanding even if such assets are acquired at a discount that reflects incurred credit losses.

(f) IFRS 9 requires that when an entity elects to present gains and losses on equity instruments measured at fair value in other comprehensive income, dividends are to be recognised in profit or loss. The exposure draft had proposed that those dividends would be recognised in other comprehensive income.

(g) IFRS 9 requires reclassifications between amortised cost and fair value classifications when the entity's business model changes. The exposure draft had proposed prohibiting reclassification.

(h) For entities that adopt IFRS 9 for reporting periods before 1 January 2012 IFRS 9 provides transition relief from restating comparative information.

(i) IFRS 9 requires additional disclosures for all entities when they first apply the IFRS.

Cost-benefit considerations

BC119 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board endeavours to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new IFRS might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

The heading 'Issues related to IAS 39' above paragraph BC166 is footnoted as follows:

> * In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39. Paragraphs BC166–BC194 discuss matters relevant when IFRS 4 was issued.

BCA5 In the dissenting opinions on IFRS 4 the headings above paragraphs DO7, DO9 and DO18 are footnoted as follows:

> * In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

BCA6 The Basis for Conclusions on IFRS 5 is amended as described below.

In paragraph BC8(b) the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' is footnoted as follows:

> * In November 2009 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

In paragraph BC13 the footnote to 'IAS 39' is deleted and replaced by the following footnote:

> * In November 2009 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

In paragraph BC54(b) the reference to 'IAS 39' is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of held-for-trading financial assets. Paragraph BC54 discusses matters relevant when IFRS 5 was issued.

In paragraph BC58 the reference to 'available-for-sale' is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of available-for-sale financial assets. Paragraph BC58 discusses matters relevant when IFRS 5 was issued.

HKFRS 7 *Financial Instruments: Disclosures*

BCA7 The Basis for Conclusions on IFRS 7 is amended as described below.

In the rubric below the title a paragraph is added as follows:

In November 2009 the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 were relocated to IFRS 9 Financial Instruments*. The text of this Basis for Conclusions has been marked up to reflect those changes: new text is underlined and deleted text is struck through.*

Paragraph BC14 is amended to read as follows:

BC14 Paragraph 8 requires entities to disclose financial assets by the measurement categories in IFRS 9 *Financial Instruments* and financial liabilities by the measurement categories in IAS 39 *Financial Instruments: Recognition and Measurement*. The Board concluded that disclosures for each measurement category would assist users in understanding the extent to which accounting policies affect the amounts at which financial assets and financial liabilities are recognised.

Paragraph BC15 is amended to read as follows:

BC15 The Board also concluded that separate disclosure of the carrying amounts of financial assets and financial liabilities that are ~~classified as held for trading and those~~ designated upon initial recognition as financial assets and financial liabilities at fair value through profit or loss and those mandatorily measured at fair value is useful because such designation is at the discretion of the entity.

The heading above paragraph BC23 is amended to read as follows and paragraph BC23B is added as follows:

Reclassification (paragraphs 12 ~~and 12A~~–12D)

BC23B In November 2009 the Board revised the requirements relating to reclassification of financial assets in IFRS 9 *Financial Instruments*. Accordingly, the Board revised the disclosure requirements relating to reclassification of financial assets.

Paragraphs BC33 and BC34 are amended to read as follows:

BC33 Paragraph 20(a) requires disclosure of income statement gains and losses by the measurement categories in IAS 39 and measurement classifications in IFRS 9 (which complement the balance sheet disclosure requirement described in paragraph BC14). The Board concluded that the disclosure is needed for users to understand the financial performance of an entity's financial instruments, given the different measurement bases in IAS 39 and IFRS 9.

BC34 Some entities include interest and dividend income in gains and losses on financial assets and financial liabilities ~~held for trading~~ measured at fair value through profit or loss and others do not. To assist users in comparing income arising from financial instruments across different entities, the Board decided that an entity should disclose how the income statement amounts are determined. For example, an entity should disclose whether net gains and losses on financial assets or financial liabilities ~~held for trading~~ measured at fair value through profit or loss include interest and dividend income (see Appendix B, paragraph B5(e)).

HKAS 1 *Presentation of Financial Statements*

BCA8 The Basis for Conclusions on IAS 1 is amended as described below.

In paragraph BC38A the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' and in paragraph BC38B the reference to 'IAS 39' are footnoted as follows:

* In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39. Paragraphs BC38A–BC38D discuss matters relevant when IAS 1 was issued.

In paragraphs BC49 and BC69 the references to 'available-for-sale' are footnoted as follows:

* IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of available-for-sale financial assets. This paragraph discusses matters relevant when IAS 1 was issued.

HKAS 17 *Leases*

BCA9 In the Basis for Conclusions on IAS 17 the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in paragraph BC21 is footnoted as follows:

* In November 2009 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

HKAS 19 *Employee Benefits*

BCA10 The Basis for Conclusions on IAS 19 is amended as described below.

In paragraph BC~~58~~48W the reference to 'available-for-sale' is footnoted as follows:

* IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of available-for-sale financial assets.

In paragraph BC75A the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' is footnoted as follows:

* In November 2009 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

HKAS 27 *Consolidated and Separate Financial Statements*

BCA11 The Basis for Conclusions on IAS 27 is amended as described below.

In paragraph BC22 the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' is footnoted as follows:

* In November 2009 the Board amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

In paragraphs BC65–BC66C the references to IAS 39 are footnoted as follows:

BC65 Paragraph 29 of IAS 27 (as revised in 2000) permitted investments in subsidiaries to be measured in any one of three ways in a parent's separate financial statements. These were cost, the equity method or as available-for-sale financial assets in accordance with IAS 39*. Paragraph 12 of IAS 28 (as revised in 2000) permitted the same choices for investments in associates in separate financial statements, and paragraph 38 of IAS 31 (as revised in 2000) mentioned that IAS 31 did not indicate a preference for any particular treatment for accounting for interests in jointly controlled entities in a venturer's separate financial statements. The Board decided to require use of cost or IAS 39‡ for all investments included in separate financial statements.

To the reference to 'IAS 39' in paragraph BC12	In November 2009 the Board amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.
~~At the end of paragraph BC13~~	~~In November 2009 the IASB published IFRS 9 *Financial Instruments*, the first phase of its project to replace IAS 39. The Board aims to have replaced IAS 39 in its entirety by the end of 2010.~~
At the end of paragraph BC16	IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of loans and receivables.
To the heading above paragraph BC37	IFRS 9 *Financial Instruments* applies to combined instruments in which a derivative is embedded in a host that is within the scope of IFRS 9. However, the requirements of IAS 39 continue to apply to derivatives embedded in non-financial hosts and financial hosts outside the scope of IFRS 9.
To the heading above paragraph BC40A	IFRS 9 *Financial Instruments* applies to combined instruments in which a derivative is embedded in a host that is within the scope of IFRS 9. However, the requirements of IAS 39 continue to apply to derivatives embedded in non-financial hosts and financial hosts outside the scope of IFRS 9.
The second sentence in paragraph BC40B	IFRS 9 *Financial Instruments* eliminated the requirement to separate embedded derivatives from financial hosts within the scope of IFRS 9. However, this amendment is still relevant to derivatives embedded in host insurance contracts and other host contracts outside the scope of IFRS 9.
To the heading 'Recognition and derecognition' above paragraph BC41	In November 2009 the requirements for the recognition of assets within the scope of IAS 39 were relocated in IFRS 9 *Financial Instruments*.
To the heading 'Measurement' above paragraph BC70A	The relevant paragraphs relating to measurement of assets within the scope of IAS 39 have been relocated in the Basis for Conclusions on IFRS 9 *Financial Instruments*. The remaining paragraphs still apply to financial liabilities within the scope of IAS 39 and have not been amended.
To the reference to 'IAS 39' in paragraph BC72	IFRS 9 *Financial Instruments* eliminated the loans and receivables and available-for-sale categories from IAS 39.
To the heading 'Impairment of investments in equity instruments' above paragraph BC105	IFRS 9 *Financial Instruments*, issued in November 2009, amended the measurement requirements for investments in equity instruments. However, the section on impairment remains relevant for assets that are measured at amortised cost in accordance with IFRS 9.

HK(IFRIC)-Int 12 *Service Concession Arrangements*

BCA24 The Basis for Conclusions on IFRIC 12 is amended as described below.

In paragraph BC59 the reference to 'IAS 39' is footnoted as follows:

> * In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

The heading above paragraph BC60 is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, amended the requirements in IAS 39 for the classification of assets within the scope of IAS 39. This Basis for Conclusions has not been updated for changes in requirements since IFRIC 12 was issued.

HK(IFRIC)-Int 17 *Distributions of Non-cash Assets to Owners*

BCA25 The Basis for Conclusions on IFRIC 17 is amended as described below.

In paragraph BC22 the reference to 'IAS 39 *Financial Instruments: Recognition and Measurement*' is footnoted as follows:

> * In November 2009 the IASB amended the requirements of IAS 39 relating to classification and measurement of assets within the scope of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all assets within the scope of IAS 39.

Paragraph BC28(a) is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, requires all investments in equity instruments to be measured at fair value.

In paragraph BC29 the reference to paragraph AG81 is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, amended paragraphs AG80 and AG81 of IAS 39 so that they apply only to derivatives on unquoted equity instruments.

In paragraph BC32 the reference to 'IAS 39' is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the requirement in IAS 39 for some assets to be measured using a historical cost basis.

In paragraph BC47(e) the reference to 'available-for-sale' is footnoted as follows:

> * IFRS 9 *Financial Instruments*, issued in November 2009, eliminated the category of available-for-sale financial asset

HKFRS 9 Appendix C
Issued November 2009

Effective for annual periods
beginning on or after 1 January 2013

Amendments to other HKFRSs and guidance
Hong Kong Financial Reporting Standard 9

Financial Instruments

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

CONTENTS

Appendix C
Amendments to other HKFRSs

Except where otherwise stated, an entity shall apply the amendments in this appendix when it applies HKFRS 9. Amended paragraphs are shown with new text underlined and deleted text struck through.

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

HKFRS 1 (as revised in August 2009)

C1 In HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (as revised in August 2009), paragraph 29 is amended and paragraphs 29A and 39B are added as follows:

29 An entity is permitted to designate a previously recognised financial asset ~~or financial liability~~ as a financial asset ~~or financial liability at~~ measured at fair value through profit or loss ~~or a financial asset as available for sale~~ in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets ~~or financial liabilities~~ so designated ~~into each category~~ at the date of designation and their classification and carrying amount in the previous financial statements.

29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.

39B HKFRS 9 *Financial Instruments* amended paragraphs 29, B1 and D19, added paragraphs 29A, B8, D19A–D19C, E1 and E2. An entity shall apply those amendments when it applies HKFRS 9.

C2 In Appendix B, paragraph B1 is amended, and a heading and paragraph B8 are added as follows:

B1 An entity shall apply the following exceptions:

(a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);

(b) hedge accounting (paragraphs B4–B6);~~, and~~

(c) non-controlling interests (paragraph B7)~~.~~; and

(d) classification and measurement of financial assets (paragraph B8).

Classification and measurement of financial assets

B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.2 of HKFRS 9 on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

C3 In Appendix D (Exemptions from other HKFRSs), paragraph D19 is amended and paragraphs D19A–D19C are added as follows.

D19 HKAS 39 permits a financial liability ~~asset to be designated on initial recognition as available for sale or a financial instrument~~ (provided it meets certain criteria) to be designated as a ~~financial asset or~~ financial liability at fair value through profit or loss. Despite this requirement ~~exceptions apply in the following circumstances:~~

~~(a)~~ ~~an entity is permitted to make an available-for-sale designation at the date of transition to 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.

D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.5 of HKFRS 9 on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.4.4 of HKFRS 9 on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

D19C If it is impracticable (as defined in HKAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of HKAS 39, the fair value of the financial asset at the date of transition to HKFRSs shall be the new amortised cost of that financial asset at the date of transition to HKFRSs.

In Appendix E (Short-term exemptions from HKFRSs), a heading and paragraphs E1 and E2 are added as follows:

Exemption from the requirement to restate comparative information for HKFRS 9

E1 In its first HKFRS financial statements, an entity that (a) adopts HKFRSs for annual periods beginning before 1 January 2012 and (b) applies HKFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with HKFRS 9 or HKFRS 7 *Financial Instruments: Disclosures*, to the extent that the disclosures required by HKFRS 7 relate to assets within the scope of HKFRS 9. For such entities, references to the 'date of transition to HKFRSs' shall mean, in the case of HKFRS 9 and HKFRS 7 only, the beginning of the first HKFRS reporting period.

E2 An entity that chooses to present comparative information that does not comply with HKFRS 9 and HKFRS 7 in its first year of transition shall:

(a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of HKAS 39 and HKFRS 9 to comparative information about assets within the scope of HKFRS 9.

(b) disclose this fact together with the basis used to prepare this information.

(c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first HKFRS reporting period* (ie the first period that includes information that complies with HKFRS 9 and HKFRS 7) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of HKAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.

(d) apply paragraph 17(c) of HKAS 1 to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

HKFRS 1 (issued 2003)

C4 In HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* (issued in October 2003 and amended at October 2008), paragraphs 25A, 26 and 43A are amended and paragraph 25AA, a heading and paragraphs 34D–34G, a heading above paragraph 36D and paragraphs 36D, 36E and 47M are added.

25A HKAS 39 *Financial Instruments: Recognition and Measurement* permits a financial ~~asset~~ liability to be designated on initial recognition as ~~available for sale or a financial instrument (provided it meets certain criteria) to be designated as~~ a ~~financial asset or~~ financial liability at fair value through profit or loss provided it meets certain criteria. Despite this requirement, a first-time adopter of HKFRSs ~~exceptions apply in the following circumstances,~~

~~(a)~~ ~~any entity is permitted to make an available-for-sale designation at the date of transition to HKFRSs.~~

~~(b)~~ ~~*an entity that presents its first HKFRS financial statements for an annual period beginning on or after 1 September 2006—*such 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.

~~(c)~~ ~~*an entity that presents*~~ ...

~~(e)~~ ... ~~at the same time they are designated as at fair value through profit or loss.~~

25AA HKFRS 9 *Financial Instruments* permits a financial asset to be designated on initial recognition as a financial asset measured at fair value through profit or loss provided that the financial asset meets the criterion in paragraph 4.5 of HKFRS 9. Despite this requirement, a first-time adopter of HKFRSs is permitted to designate, at the date of transition to HKFRSs, any financial asset as measured at fair value through profit or loss provided the asset meets the criterion in paragraph 4.5 of HKFRS 9 at that date.

26 This HKFRS prohibits retrospective application of some aspects of other HKFRSs relating to:

(a) …

(d) assets classified as held for sale and discontinued operations (paragraphs 34A and 34B); ~~and~~

(e) some aspects of accounting for non-controlling interests (paragraph 34C)~~.~~; and

(f) classification and measurement of financial assets (paragraphs 34D–34G).

Classification and measurement of financial assets

34D An entity shall assess whether a financial asset meets the conditions in paragraph 4.2 of HKFRS 9 *Financial Instruments* on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

34E An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.5 of HKFRS 9 on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

34F An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.4.4 of HKFRS 9 on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

34G If it is impracticable (as defined in HKAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of HKAS 39, the fair value of the financial asset at the date of transition to HKFRSs shall be the new amortised cost of that financial asset at the date of transition to HKFRSs.

Exemption from the requirement to restate comparative information for HKFRS 9

36D In its first HKFRS financial statements, an entity that (a) adopts HKFRSs for annual periods beginning before 1 January 2012 and (b) applies HKFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with HKFRS 9 or HKFRS 7, to the extent that the disclosures required by HKFRS 7 relate to assets within the scope of HKFRS 9. For such entities, references to the 'date of transition to HKFRSs' shall mean, in the case of HKFRS 9 and HKFRS 7 only, the beginning of the first HKFRS reporting period.

36E An entity that chooses to present comparative information that does not comply with HKFRS 9 and HKFRS 7 in its first year of transition shall:

(a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of HKAS 39 and HKFRS 9 to comparative information about assets within the scope of HKFRS 9.

(b) disclose this fact together with the basis used to prepare this information.

(c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first HKFRS reporting period* (ie the first period that includes information that complies with HKFRS 9 and HKFRS 7) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.

(d) apply paragraph 17(c) of HKAS 1 to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

43A An entity is permitted to designate a previously recognised financial asset ~~or financial liability as a financial asset or financial liability~~ as measured at fair value through profit or loss in accordance with paragraph 25AA or a previously recognised financial liability as a financial liability at fair value through profit or loss ~~or a financial asset as available for sale~~ in accordance with paragraph 25A. The entity shall disclose the fair value of financial assets or financial liabilities so designated ~~into each category~~ at the date of designation and their classification and carrying amount in the previous financial statements.

47M HKFRS 9, issued in November 2009, amended paragraphs 25A, 26 and 43A and added paragraphs 25AA, 34D–34G, 36D and 36E. An entity shall apply those amendments when it applies HKFRS 9.

HKFRS 3 *Business Combinations*

HKFRS 3 (2008)

C5 In HKFRS 3 *Business Combinations* (as revised in 2008), paragraphs 16, 42 and 58 are amended and paragraph 64A is added as follows:

16 In some situations, HKFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

(a) classification of particular financial assets and liabilities as measured ~~a financial asset or liability~~ at fair value ~~through profit or loss,~~ or at amortised cost ~~as a financial asset available for sale or held to maturity~~, in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*;

(b) designation of a derivative instrument as a hedging instrument in accordance with HKAS 39; and

(c) assessment of whether an embedded derivative should be separated from ~~the~~ a host contract outside the scope of HKFRS 9 in accordance with HKAS 39 (which is a matter of 'classification' as this HKFRS uses that term).

42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income ~~(for example, because the investment was classified as available for sale)~~. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

58 ...

(b) Contingent consideration classified as an asset or a liability that:

(i) is a financial instrument and is within the scope of HKFRS 9 or HKAS 39 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with ~~that~~ HKFRS 9 or HKAS 39 as applicable.

(ii) is not within the scope of HKFRS 9 or HKAS 39 shall be accounted for in accordance with HKAS 37 or other HKFRSs as appropriate.

64A HKFRS 9, issued in November 2009, amended paragraphs 16, 42 and 58. An entity shall apply those amendments when it applies HKFRS 9.

HKFRS 4 *Insurance Contracts*

C6 Paragraphs 3 and 45 are amended and paragraph 41C is added as follows:

3 This HKFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see HKAS 32 *Financial Instruments: Presentation*, HKAS 39 *Financial Instruments: Recognition and Measurement*, ~~and~~ HKFRS 7 and HKFRS 9 *Financial Instruments*), except in the transitional provisions in paragraph 45.

45 Notwithstanding paragraph 4.9 of HKFRS 9, w~~W~~hen an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets as measured ~~‘~~at fair value ~~through profit or loss’~~. This reclassification is permitted if an insurer changes accounting policies when it first applies this HKFRS and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and HKAS 8 applies.

41C HKFRS 9, issued in November 2009, amended paragraphs 3 and 45. An entity shall apply those amendments when it applies HKFRS 9.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

C7 In paragraph 5(c), the reference to ‘HKAS 39 *Financial Instruments: Recognition and Measurement*’ is replaced with ‘HKFRS 9 *Financial Instruments*’.

HKFRS 7 *Financial Instruments: Disclosures*

C8 In the rubric, the reference to 'Appendices A–D' is amended to 'Appendices A–C'. In paragraph 4 the references to 'HKAS 39' and in paragraph 5 the first reference to 'HKAS 39' are replaced with 'HKAS 39 and HKFRS 9'. A heading and paragraphs 11A, 11B, 12B–12D, 20A and 44H–44J are added, paragraphs 12 and 12A are deleted and paragraphs 2, 3, 8, 9, 20, 29 and 30 are amended as follows:

2 The principles in this HKFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in HKAS 32 *Financial Instruments: Presentation* , ~~and~~ HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 9 *Financial Instruments*.

3 This HKFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 Investments in Associates or HKAS 31 *Interests in Joint Ventures*. However, in some cases, HKAS 27, HKAS 28 or HKAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using HKAS 39 and HKFRS 9; in those cases, entities shall apply the requirements of this HKFRS. Entities shall also apply this HKFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in HKAS 32.

8 The carrying amounts of each of the following categories, as specified ~~defined~~ in HKFRS 9 or HKAS 39, shall be disclosed either in the statement of financial position or in the notes:

(a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those mandatorily ~~classified as~~ measured at fair value ~~held for trading~~ in accordance with HKFRS 9 ~~HKAS 39;~~.

(b)–(d) [deleted]

~~(b) held-to-maturity investments;~~

~~(c) loans and receivables;~~

~~(d) available-for-sale financial assets;~~

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition and (ii) those that meet the definition of ~~classified as~~ held for trading in ~~accordance with~~ HKAS 39~~; and~~.

(f) financial assets ~~liabilities~~ measured at amortised cost.

(g) financial liabilities measured at amortised cost.

(h) financial assets measured at fair value through other comprehensive income.

9 If the entity has designated ~~a loan or receivable (or group of loans or receivables)~~ as measured at fair value ~~through profit or loss~~ a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:

(a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ financial assets) at the end of the reporting period.

(b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

(c) the amount of change, during the period and cumulatively, in the fair value of the ~~loan or receivable~~ financial asset (or group of ~~loans or receivables~~ financial assets) that is attributable to changes in the credit risk of the financial asset determined either:

...

(d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the ~~loan or receivable~~ financial asset was designated.

...

Financial assets measured at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.4.4 of HKFRS 9, it shall disclose:

(a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.

(b) the reasons for using this presentation alternative.

(c) the fair value of each such investment at the end of the reporting period.

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) the reasons for disposing of the investments.

(b) the fair value of the investments at the date of derecognition.

(c) the cumulative gain or loss on disposal.

12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.9 of HKFRS 9. For each such event, an entity shall disclose:

(a) the date of reclassification.

(b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.

(c) the amount reclassified into and out of each category.

12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.9 of HKFRS 9:

(a) the effective interest rate determined on the date of reclassification; and

(b) the interest income or expense recognised.

12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:

(a) the fair value of the financial assets at the end of the reporting period; and

(b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

(a) net gains or net losses on:

(i) financial assets ~~or financial liabilities~~ measured at fair value through profit or loss, showing separately those on financial assets ~~or financial liabilities~~ designated as such upon initial recognition, and those ~~on financial assets or financial liabilities~~ that are mandatorily measured at fair value ~~classified as held for trading~~ in accordance with HKFRS 9 ~~HKAS 39;~~.

(ii)–(iv) [deleted]

~~(ii)~~ ~~available-for-sale financial assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified from equity to profit or loss for the period;~~

~~(iii)~~ ~~held-to-maturity investments;~~

~~(iv)~~ ~~loans and receivables; and~~

(v) financial liabilities ~~measured at amortised cost~~ at fair value through profit or loss, showing separately those on financial liabilities designated as such upon initial recognition, and those on financial liabilities that meet the definition of held for trading in HKAS 39.

(vi) financial assets measured at amortised cost.

(vii) financial liabilities measured at amortised cost.~~;~~

(viii) financial assets measured at fair value through other comprehensive income.

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets ~~or financial liabilities~~ that are measured at amortised cost or financial liabilities not at fair value through profit or loss;

(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets ~~or financial liabilities~~ measured at amortised cost or financial liabilities that are not at fair value through profit or loss; and

(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions;

(d) ...

20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) for ~~an investment in equity instruments that do not have a quoted market price in an active market, or~~ derivatives linked to investments in equity instruments that do not have a quoted market price in an active market that are ~~such equity instruments, that is~~ measured at cost in accordance with HKAS 39 because ~~its~~ their fair value cannot be measured reliably; or

(c) for a contract containing a discretionary participation feature (as described in HKFRS 4) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those ~~financial assets or financial liabilities~~ contracts and their fair value, including:

(a) ...

44H HKFRS 9, issued in November 2009, amended paragraphs 2–5, 8, 9, 12, 20, 29 and 30, added paragraphs 11A, 11B, 12B–12D and 20A and deleted paragraph 12A. It also amended the last paragraph of Appendix A (Defined terms) and paragraphs B1, B5, B10, B22 and B27, and deleted Appendix D (Amendments to HKFRS 7 if the Amendments to HKAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied). An entity shall apply those amendments when it applies HKFRS 9.

44I When an entity first applies HKFRS 9, it shall disclose for each class of financial assets at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with HKAS 39;

(b) the new measurement category and carrying amount determined in accordance with HKFRS 9;

(c) the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that HKFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies HKFRS 9, it shall disclose qualitative information to enable users to understand:

(a) how it applied the classification requirements in HKFRS 9 to those financial assets whose classification has changed as a result of applying HKFRS 9.

(b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

C9 In Appendix A (Defined terms), the last paragraph is amended as follows:

The following terms are defined in paragraph 11 of HKAS 32 or paragraph 9 of HKAS 39 and are used in the HKFRS with the meaning specified in HKAS 32 and HKAS 39.

- amortised cost of a financial asset or financial liability
- ~~available-for-sale financial assets~~
- derecognition
- derivative
- effective interest method
- equity instrument
- fair value
- financial asset
- ~~financial asset or~~ financial liability at fair value through profit or loss
- ~~financial asset or financial liability held for trading~~
- financial guarantee contract
- financial instrument
- financial liability
- forecast transaction

- hedging instrument
- held for trading
- ~~held-to-maturity investments~~
- ~~loans and receivables~~
- regular way purchase or sale

C10 In Appendix B (Application guidance), paragraphs B1, B5, B10, B22 and B27 are amended as follows:

B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in HKAS 39 and HKFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) for ~~financial assets or~~ financial liabilities designated as at fair value through profit or loss:

(i) the nature of the ~~financial assets or~~ financial liabilities the entity has designated as at fair value through profit or loss;

(ii) the criteria for so designating such ~~financial assets or~~ financial liabilities on initial recognition; and

(iii) how the entity has satisfied the conditions in paragraph 9, 11A or 12 of HKAS 39 for such designation. For instruments designated in accordance with paragraph (b)(i) of the definition of a ~~financial asset or~~ financial liability at fair value through profit or loss in HKAS 39, that disclosure includes a narrative description of the circumstances underlying the measurement or recognition inconsistency that would otherwise arise. For instruments designated in accordance with paragraph (b)(ii) of the definition of a ~~financial asset or~~ financial liability at fair value through profit or loss in HKAS 39, that disclosure includes a narrative description of how designation at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

(aa) for financial assets designated as measured at fair value through profit or loss:

(i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss;

(ii) how the entity has satisfied the criteria in paragraph 4.5 of HKFRS 9 for such designation.

(b) [deleted] ~~the criteria for designating financial assets as available for sale.~~

(c) ...

B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

(a) granting loans ~~and receivables~~ to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

(b) ...

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg ~~loans and receivables and~~ debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured ~~classified as~~ at fair value through profit or loss ~~and impairments of available-for-sale financial assets~~) is disclosed separately from the sensitivity of other comprehensive income ~~equity (~~that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income ~~classified as available for sale)~~.

C11 Appendix D (Amendments to HKFRS 7 if the Amendments to HKAS 39 Financial Instruments: Recognition and Measurement—*The Fair Value Option* have not been applied) is deleted.

HKAS 1 *Presentation of Financial Statements*

C12 In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 82, 93 and 95 are amended and paragraph 139E is added as follows:

7 ...

Other comprehensive income **comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other HKFRSs.**

The components of other comprehensive income include:

(a) ...

(d) gains and losses ~~on remeasuring available-for-sale financial assets (see HKAS 39 *Financial Instruments: Recognition and Measurement*)~~ from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.4.4 of HKFRS 9 *Financial Instruments*;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see HKAS 39).

68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of ~~classified as~~ held for trading in ~~accordance with~~ HKAS 39) and the current portion of non-current financial assets.

82 As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period:

(a) revenue;

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(b) finance costs;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in HKFRS 9);

(d) ...

93 Other HKFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. ~~For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period.~~ These amounts may have been recognised in other comprehensive income …

95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see HKAS 21)~~, on derecognition of available-for-sale financial assets (see HKAS 39)~~ and when a hedged forecast transaction affects profit or loss (see paragraph 100 of HKAS 39 in relation to cash flow hedges).

139E HKFRS 9, issued in November 2009, amended the definition of ‘other comprehensive income’ in paragraph 7 and paragraphs 68, 82, 93 and 95. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 2 *Inventories*

C13 Paragraph 2(b) is amended and paragraph 40A added as follows:

2 This Standard applies to all inventories, except:

...

(b) financial instruments (see HKAS 32 *Financial Instruments: Presentation*, ~~and~~ HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 9 *Financial Instruments*); and

...

40A HKFRS 9, issued in November 2009, amended paragraph 2(b). An entity shall apply that amendment when it applies HKFRS 9.

HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

C14 Paragraph 53 is amended and paragraph 54A is added as follows:

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, ~~when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition,~~ when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with HKAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A HKFRS 9 *Financial Instruments*, issued in November 2009, amended paragraph 53. An entity shall apply that amendment when it applies HKFRS 9.

HKAS 12 *Income Taxes*

C15 In the rubric the reference to 'paragraphs 1–95' is amended to 'paragraphs 1–96'. Paragraph 20 is amended and paragraph 96 is added as follows:

20 HKFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, HKAS 16 *Property, Plant and Equipment*, HKAS 38 *Intangible Assets*, HKFRS 9 *Financial Instruments* ~~HKAS 39 *Financial Instruments: Recognition and Measurement*~~ and HKAS 40 *Investment Property*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, ...

96 HKFRS 9, issued in November 2009, amended paragraph 20. An entity shall apply that amendment when it applies HKFRS 9.

HKAS 18 *Revenue*

C16 In the rubric the reference to 'paragraphs 1–38' is amended to 'paragraphs 1–39'. Paragraph 6(d) and the last sentence of paragraph 11 are amended and paragraph 39 is added as follows:

6 This Standard does not deal with revenue arising from:

...

(d) changes in the fair value of financial assets and financial liabilities or their disposal (see HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*);

11 In most cases … The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with HKAS 39 and HKFRS 9.

39 HKFRS 9, issued in November 2009, amended paragraphs 6(d) and 11. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

C17 Paragraphs 3(a), 4 and 52(a) are amended and paragraph 60C is added as follows:

3 This Standard shall be applied: [footnote omitted]

(a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* **and HKFRS 9** *Financial Instruments*;

...

4 HKFRS 9 and HKAS 39 apply ~~applies~~ to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of HKFRS 9 and HKAS 39 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

52 An entity shall disclose:

(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with HKFRS 9 and HKAS 39; and

(b) …

60C HKFRS 9, issued in November 2009, amended paragraphs 3(a), 4 and 52(a). An entity shall apply those amendments when it applies HKFRS 9.

HKAS 27 *Consolidated and Separate Financial Statements*

HKAS 27 (2008)

C18 In paragraph IN10 after the reference to 'HKAS 39 *Financial Instruments: Recognition and Measurement*' is added 'and HKFRS 9 *Financial Instruments*'. Paragraphs 35, 37, 38 and 40 are amended and paragraph 45D is added as follows:

35 If a parent loses control of a subsidiary, … For example, if a subsidiary has cumulative exchange differences relating to a foreign operation ~~available-for-sale financial assets~~ and the parent loses control of the subsidiary, the parent shall

reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. Similarly, …

37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with HKFRS 9 *Financial Instruments* ~~HKAS 39 *Financial Instruments: Recognition and Measurement*~~ or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

38 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost, or

(b) in accordance with HKFRS 9 and HKAS 39.

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5. The accounting for ~~measurement of~~ investments ~~accounted for~~ in accordance with HKFRS 9 and HKAS 39 is not changed in such circumstances.

40 Investments in jointly controlled entities and associates that are accounted for in accordance with HKFRS 9 and HKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

45D HKFRS 9, issued in November 2009, amended paragraphs 35, 37, 38 and 40. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 27 (2003)

C19 In HKAS 27 *Consolidated and Separate Financial Statements* (as revised in October 2005) paragraphs 31, 32, 37 and 39 are amended and paragraph 43A is added as follows:

31 An investment in an entity shall be accounted for in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement* from the date that it ceases to be a subsidiary, provided that it does not become an associate as defined in HKAS 28 or a jointly controlled entity as described in HKAS 31.

32 The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with HKFRS 9 ~~HKAS 39~~.

37 When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 shall be accounted for either:

(a) at cost, or

(b) in accordance with HKFRS 9 and HKAS 39.

The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 shall be accounted for in accordance with that HKFRS.

39 **Investments in jointly controlled entities and associates that are accounted for in accordance with HKFRS 9 and HKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.**

43A HKFRS 9, issued in November 2009, amended paragraphs 31, 32, 37 and 39. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 28 *Investments in Associates*

HKAS 28 (2008)

C20 HKAS 28 *Investments in Associates* (as amended in October 2008) is amended as described below.

Paragraphs 1 and 18–19A are amended and paragraph 41D is added as follows:

1 **This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that are measured ~~upon initial recognition are designated as~~ at fair value through profit or loss ~~or are classified as held for trading and accounted for~~ in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. An entity shall measure such ~~Such~~ investments ~~shall be measured~~ at fair value through profit or loss in accordance with HKFRS 9 ~~HKAS 39, with changes in fair value recognised in profit or loss in the period of the change~~. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

18 **An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with HKFRS 9 and HKAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in HKAS 31. On the loss of significant influence, …**

19 **When an investment ceases to be an associate and is accounted for in accordance with HKFRS 9 and HKAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9 ~~HKAS 39~~.**

19A If an investor loses significant influence over an associate, … For example, if an associate has cumulative exchange differences relating to a foreign operation ~~available-for-sale financial assets~~ and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If …

41D HKFRS 9, issued in November 2009, amended paragraphs 1 and 18–19A. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 28 (2003)

C21 HKAS 28 *Investments in Associates*, issued in December 2003 and amended at 31 December 2007, is amended as described below.

Paragraphs 1, 18 and 19 are amended and paragraph 41A is added as follows:

1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that are measured ~~upon initial recognition are designated as~~ at fair value through profit or loss ~~or are classified as held for trading and accounted for~~ in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. An entity shall measure such ~~Such~~ investments ~~shall be measured~~ at fair value through profit or loss in accordance with HKFRS 9 ~~HKAS 39, with changes in fair value recognised in profit or loss in the period of the change~~.

18 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with HKFRS 9 and HKAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in HKAS 31.

19 The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial recognition ~~measurement~~ as a financial asset in accordance with HKFRS 9 ~~HKAS 39~~.

41A HKFRS 9, issued in November 2009, amended paragraphs 1, 18 and 19. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 31 *Interests in Joint Ventures*

HKAS 31 as amended in October 2008

C22 HKAS 31 *Interests in Joint Ventures* (as amended in October 2008) is amended as described below.

Paragraph IN5 is amended as follows:

IN5 The Standard does not apply to investments that would otherwise be interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are ~~classified as held for trading and~~ accounted for at fair value through profit or loss in accordance with

HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.

Paragraphs 1, 45–45B and 51 are amended and paragraph 58C is added as follows:

1 **This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that are measured ~~upon initial recognition are designated as~~ at fair value through profit or loss ~~or are classified as held for trading and accounted for~~ in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. An entity shall measure such ~~Such~~ investments ~~shall be measured~~ at fair value through profit or loss in accordance with HKFRS 9 ~~HKAS 39, with changes in fair value recognised in profit or loss in the period of the change~~. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

45 **When an investor ceases to have joint control over an entity, it shall account for any remaining investment in accordance with HKFRS 9 and HKAS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From …**

45A **When an investment ceases to be a jointly controlled entity and is accounted for in accordance with HKFRS 9 and HKAS 39, the fair value of the investment when it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9 ~~HKAS 39~~.**

45B If an investor loses joint control of an entity, … For example, if a jointly controlled entity has cumulative exchange differences relating to a foreign operation ~~available-for-sale financial assets~~ and the investor loses joint control of the entity, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to the foreign operation ~~those assets~~. If ...

51 **An investor in a joint venture that does not have joint control shall account for that investment in accordance with HKFRS 9 and HKAS 39 or, if it has significant influence in the joint venture, in accordance with HKAS 28.**

58C HKFRS 9, issued in November 2009, amended paragraphs 1, 45–45B and 51. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 31 (2004)

C23 HKAS 31 *Interests in Joint Ventures*, issued in December 2004 and amended in December 2007, is amended as described below:

Paragraph IN5 is amended as follows:

IN5 The Standard does not apply to investments that would otherwise be interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are ~~classified as held for trading and~~ accounted for at fair value through profit or loss in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.

Paragraphs 1 and 51 are amended and paragraph 58A is added as follows:

1 This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that are measured ~~upon initial recognition are designated as~~ at fair value through profit or loss ~~or are classified as held for trading and accounted for~~ in accordance with HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*. An entity shall measure such ~~Such~~ investments ~~shall be measured~~ at fair value through profit or loss in accordance with HKFRS 9 ~~HKAS 39, with changes in fair value recognised in profit or loss in the period of the change~~.

51 An investor in a joint venture that does not have joint control shall account for that investment in accordance with HKFRS 9 and HKAS 39 or, if it has significant influence in the joint venture, in accordance with HKAS 28.

58A HKFRS 9, issued in November 2009, amended paragraphs 1 and 51. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 32 *Financial Instruments: Presentation*

C24 Paragraphs 3, 12 and 31 are amended and paragraph 97F is added as follows:

3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in HKFRS 9 *Financial Instruments* and HKAS 39 *Financial Instruments: Recognition and Measurement*, and for disclosing information about them in HKFRS 7 *Financial Instruments: Disclosures*.

12 The following terms are defined in paragraph 9 of HKAS 39 and are used in this Standard with the meaning specified in HKAS 39.

- amortised cost of a financial asset or financial liability
- ~~available for sale financial assets~~
- derecognition
- derivative
- effective interest method
- ~~financial asset or~~ financial liability at fair value through profit or loss
- financial guarantee contract
- firm commitment
- forecast transaction
- hedge effectiveness
- hedged item
- hedging instrument
- held for trading
- ~~held to maturity investments~~
- ~~loans and receivables~~
- regular way purchase or sale
- transaction costs.

31 HKFRS 9 and HKAS 39 deal~~s~~ with the measurement of financial assets and financial liabilities respectively. Equity instruments …

97F HKFRS 9, issued in November 2009, amended paragraphs 3, 12, 31, AG2 and AG30. An entity shall apply those amendments when it applies HKFRS 9.

C25 In the Appendix (Application Guidance), paragraphs AG2 and AG30 are amended as follows:

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about ~~the~~ recognition and measurement are set out in HKFRS 9 for ~~of~~ financial assets and HKAS 39 for financial liabilities.

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. HKFRS 9 deals with the classification and measurement of financial assets that are compound instruments from the holder's perspective. ~~HKAS 39 deals with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain debt and equity features.~~

HKAS 36 *Impairment of Assets*

C26 In HKAS 36, paragraphs 2(e) and 5 are amended and paragraph 140F is added as follows:

2 ...

(e) financial assets that are within the scope ~~of HKAS 39 *Financial Instruments: Recognition and Measurement*~~ <u>HKFRS 9 *Financial Instruments*</u>;

5 This Standard does not apply to financial assets within the scope of ~~HKAS 39~~ <u>HKFRS 9</u>, investment property measured at fair value in accordance with HKAS 40, or biological assets related to agricultural activity measured at fair value less costs to sell in accordance with HKAS 41. However, ...

140F HKFRS 9, issued in November 2009, amended paragraphs 2(e) and 5. An entity shall apply those amendments when it applies HKFRS 9.

HKAS 39 *Financial Instruments: Recognition and Measurement*

C27 HKAS 39 *Financial Instruments: Recognition and Measurement* is amended as described below.

In the Introduction paragraphs IN1–IN26 are deleted. A new Introduction is added as follows:

The ~~IASB~~ <u>International Accounting Standards Board</u> has decided to replace HKAS 39 <u>*Financial Instruments: Recognition and Measurement*</u> over a period of time. The first instalment, dealing with classification and measurement of financial assets, was issued as HKFRS 9 *Financial Instruments* in November 2009. As a consequence, part of HKAS 39 is being superseded and will become obsolete for annual periods beginning on or after 1 January 2013. Proposals to replace the requirements on impairment and derecognition have been published and further proposals are expected in 2009 and 2010. The remaining requirements of HKAS 39 continue in effect until superseded by future instalments of HKFRS 9.<u> The Board aims to have replaced HKAS 39 in its entirety by the end of 2010.</u>

Paragraph 1 is amended as follows:

1 The objective of this Standard is to establish principles for recognising and measuring ~~financial assets,~~ financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in HKAS 32 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in HKFRS 7 *Financial Instruments: Disclosures*. <u>Requirements for classifying and measuring financial assets are in HKFRS 9 *Financial Instruments*.</u>

In paragraph 9, a definition of 'held for trading' is added and the heading 'Definitions of four categories of financial instruments' and the definition of 'financial asset or financial liability at fair value through profit or loss' are amended as follows:

Definitions of ~~four~~ categories of financial instruments

...

<u>**A financial asset or financial liability is *held for trading* if:**</u>

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

A ~~*financial asset or*~~ *financial liability at fair value through profit or loss* is a ~~financial asset or~~ financial liability that meets either of the following conditions.

(a) It ~~is classified as~~ meets the definition of held for trading. ~~A financial asset or financial liability is classified as held for trading if:~~

~~(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;~~

~~(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking; or~~

~~(iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).~~

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either

...

(ii) a group of ~~financial assets,~~ financial liabilities or ~~both~~ financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in HKAS 24 *Related Party Disclosures* (as revised in ~~2003~~ 2009)), for example the entity's board of directors and chief executive officer.

In HKFRS 7, paragraphs ~~9–~~10 and 11 ~~and B4~~ require the entity to provide disclosures about ~~financial assets and~~ financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions (see paragraphs B4 and B5 of HKFRS 7). For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

~~Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured (see~~

~~paragraph 46(c) and Appendix A paragraphs AG80 and AG81), shall not be designated as at fair value through profit or loss.~~

It should be noted that paragraphs 48, 48A, 49 and Appendix A paragraphs AG69–AG82, which set out requirements for determining a reliable measure of the fair value of a ~~financial asset or~~ financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed.

...

In paragraph 9 the following terms are deleted:

- held-to-maturity investments
- loans and receivables
- available-for-sale financial assets

Paragraphs 10–11A, 13 and 14 are amended as follows:

10 An embedded derivative is a component of a hybrid (combined) <u>contract</u> ~~instrument~~ that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined <u>contract</u> ~~instrument~~ vary in a way similar to a stand-alone derivative. An …

11 An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

...

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; ~~and~~

(c) the hybrid (combined) <u>contract</u> ~~instrument~~ is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a ~~financial asset or~~ financial liability at fair value through profit or loss is not separated)~~.~~<u>; and</u>

<u>(d) the host is outside the scope of HKFRS 9.</u>

If an embedded derivative is separated, the host contract shall be accounted for ~~under this Standard if it is a financial instrument, and~~ in accordance with <u>the</u> ~~other~~ appropriate <u>HKFRSs</u> ~~Standards if it is not a financial instrument~~. This Standard does not address whether an embedded derivative shall be presented separately in the statement of financial position.

11A Notwithstanding paragraph 11, if a contract contains one or more embedded derivatives <u>and the host is outside the scope of HKFRS 9</u>, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

...

13 If an entity is unable to determine reliably the fair value of an embedded derivative on the basis of its terms and conditions ~~(for example, because the embedded derivative is based on an unquoted equity instrument)~~, the fair value of the embedded derivative is the difference between the fair value of the hybrid

(combined) contract ~~instrument~~ and the fair value of the host contract, if those can be determined under this Standard. If the entity is unable to determine the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) contract ~~instrument~~ is designated as at fair value through profit or loss.

14 **An entity shall recognise ~~a financial asset or~~ a financial liablity in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. ~~(See paragraph 38 with respect to regular way purchases of financial assets.)~~**

Paragraphs 26~~(b)~~, 27~~(b)~~, 31, 33 and 34~~(b)~~ are amended as follows:

26 **On derecognition of a financial asset in its entirety, the difference between:**

(a) the carrying amount (measured at the date of derecognition) and

(b) ~~the sum of (i)~~ the consideration received (including any new asset obtained less any new liability assumed) ~~and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (see paragraph 55(b))~~

shall be recognised in profit or loss.

27 **… The difference between:**

(a) the carrying amount (measured at the date of derecognition) allocated to the part derecognized and

(b) ~~the sum of (i)~~ the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) ~~and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (paragraph 55(b))~~…

shall be recognised in profit or loss. ~~A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts.~~

31 **When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. Despite the other measurement requirements in this Standard and HKFRS 9, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is …**

(a) ...

33 **For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 55 and HKFRS 9 paragraph 5.4.1, and shall not be offset.**

34 **…The difference between:**

(a) the carrying amount (measured at the date of derecognition) allocated to the part that is no longer recognised; and

(b) **~~the sum of (i)~~ the consideration received for the part no longer recognised ~~and (ii) any cumulative gain or loss allocated to it that had been recognised in other comprehensive income (see paragraph 55(b))~~**

shall be recognised in profit or loss. ~~A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised, on the basis of the relative fair values of those parts.~~

In the section titled 'Measurement' the following are deleted: the headings above paragraphs 45, 63, 66 and 67; and paragraphs 45, 46, 50B–52, 61 and 66–70. The heading above paragraphs 43 and 58 and paragraphs 43, 44, 47, 48, 50, 50A, 53–58 and 63 are amended as follows:

Initial measurement of ~~financial assets and~~ financial liabilities

43 **When a ~~financial asset or~~ financial liability is recognised initially, an entity shall measure it at its fair value <u>minus</u> ~~plus~~, in the case of a ~~financial asset or~~ financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the ~~acquisition or~~ issue of the ~~financial asset or~~ financial liability.**

44 When an entity uses settlement date accounting for an asset that is subsequently measured at ~~cost or~~ amortised cost, the asset is recognised initially at its fair value on the trade date (see Appendix A paragraphs AG53–AG56).

47 **After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:**

(a) **financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost <u>(see Appendix A paragraphs AG80 and AG81)</u>.**

…

48 **In determining the fair value of a financial asset or a financial liablity for the purpose of applying this Standard, HKAS 32<u>,</u> ~~or~~ HKFRS 7 <u>or HKFRS 9</u>, an entity shall apply paragraphs AG69–AG82 of Appendix A.**

50 **An entity~~:~~ <u>shall not reclassify a financial liability except in accordance with paragraphs 53 and 54.</u>**

(a) **~~shall not reclassify~~ ...**

... ~~after initial recognition.~~

50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50:

(a) a derivative that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such~~;~~.

(b) a derivative becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge~~;~~.

(c) [deleted]

53 If a reliable measure becomes available for a ~~financial asset or~~ financial liability for which such a measure was previously not available, and the ~~asset or~~ liability is required to be measured at fair value if a reliable measure is available (see paragraph~~s 46(c) and~~ 47(a)), the ~~asset or~~ liability shall be remeasured at fair value, and the difference between its carrying amount and fair value shall be accounted for in accordance with paragraph 55.

54 If, ~~as a result of a change in intention or ability or~~ in ~~the~~ rare circumstances ~~that~~ a reliable measure of fair value is no longer available (see paragraph~~s 46(c) and~~ 47(a)), ~~or because the 'two preceding financial years' referred to in paragraph 9 have passed, it becomes appropriate to carry a financial asset or~~ an entity shall measure the financial liability at cost ~~or amortised cost~~ rather than at fair value.~~,~~ T~~t~~he fair value ~~carrying amount~~ of the ~~financial asset or the~~ financial liability on ~~that~~ the date of reclassification becomes its new cost. ~~or amortised cost, as applicable. Any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for as follows:~~

~~(a)~~ ~~In the case of a~~ ….

~~(b)~~ … ~~in accordance with paragraph 67.~~

55 A gain or loss arising from a change in the fair value of a ~~financial asset or~~ financial liability measured at fair value through profit or loss that is not part of a hedging relationship (see paragraphs 89–102), shall be recognised in profit or loss. ~~, as follows~~

~~(a)~~ ~~A gain or loss~~ ...

~~(b)~~ ... ~~the entity's right to receive payment is established (see HKAS 18).~~

56 For ~~financial assets and~~ financial liabilities ~~carried~~ measured at amortised cost (see paragraph~~s 46 and~~ 47), a gain or loss is recognised in profit or loss when the ~~financial asset or~~ financial liability is derecognised ~~or impaired~~, and through the amortisation process. However, for ~~financial assets or~~ financial liabilities that are hedged items (see paragraphs 78–84 and Appendix A paragraphs AG98–AG101) the accounting for the gain or loss shall follow paragraphs 89–102.

57 **If an entity recognises financial assets using settlement date accounting (see paragraph 38 and Appendix A paragraphs AG53 and AG56), any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets ~~carried at cost or~~ measured at amortised cost (other than impairment losses). For assets ~~carried~~ measured at fair value, however, the change in fair value shall be recognised in profit or loss or in equity, as appropriate under ~~paragraph 55~~ and paragraph 5.4.1 of HKFRS 9.**

Impairment and uncollectibility of financial assets measured at amortised cost

58 **An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 ~~(for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available for sale financial assets)~~ to determine the amount of any impairment loss.**

63 **If there is objective evidence that an impairment loss on financial assets measured ~~loans and receivables or held to maturity investments carried~~ at amortised cost has been incurred, the amount of the loss is measured as …**

Paragraph 79 is deleted and paragraphs 88(d), 89(b), 90 and 96(c) are amended as follows:

88 **A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.**

...

(d) **The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured (see paragraph~~s 46 and~~ 47(a) and Appendix A paragraphs AG80 and AG81 for guidance on determining fair value).**

...

89 **If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:**

...

(b) **the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. ~~Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available for sale financial asset.~~**

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 55 of this Standard and paragraph 5.4.1 of HKFRS 9.

96 …

(c) if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 55 of this Standard and paragraph 5.4.1 of HKFRS 9.

Paragraphs 103L and 103M are added as follows:

103L HKFRS 9, issued in November 2009, amended paragraphs 1, 9–11A, 13, 14, 26(b), 27(b), 31, 33, 34(b), 43, 44, 47, 48, 50, 50A, 53–58, 63, 88(d), 89(b), 90, 96(c), AG3, AG3A, AG4B–AG4E, AG4H, AG4I, AG8, AG50, AG53, AG56, AG64, AG76A, AG80, AG81, AG83, AG84, AG95, AG96 and AG114(a) and deleted paragraphs 45, 46, 50B–52, 61, 66–70, 79, AG16–AG26, AG30(b), AG30(f) and AG65–AG68. An entity shall apply those amendments when it applies HKFRS 9.

103M At the date of initial application of HKFRS 9, an entity:

(a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 9(b)(i) of HKAS 39.

(b) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with paragraph 9(b)(i) of HKAS 39 and such designation does not satisfy that condition at the date of initial application of HKFRS 9.

(c) may revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with paragraph 9(b)(i) of HKAS 39 and such designation satisfies that condition at the date of initial application of HKFRS 9.

Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application of HKFRS 9. That classification shall be applied retrospectively.

C28 Appendix A of HKAS 39 (Application guidance) is amended as described below.

Paragraphs AG3, AG3A, AG4B–AG4E, AG4H and AG4I are amended as follows:

AG3 … If neither the equity method nor proportionate consolidation is appropriate, the entity applies this Standard and HKFRS 9 ~~*Financial Instruments*~~ to that strategic investment.

AG3A This Standard and HKFRS 9 apply ~~applies~~ to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under contracts within the scope of HKFRS 4.

AG4B Paragraph 9 of this Standard and paragraph 4.5 of HKFRS 9 allow~~s~~ an entity to designate a financial asset, a financial liability, or a group of financial instruments (financial assets, financial liabilities or both) as at fair value through profit or loss provided that doing so results in more relevant information.

AG4C The decision of an entity to designate a financial asset or financial liability as at fair value through profit or loss is similar to an accounting policy choice (although, unlike an accounting policy choice, it is not required to be applied consistently to all similar transactions). When an entity has such a choice, paragraph 14(b) of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the chosen policy to result in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows. For example, in ~~In~~ the case of designation of a financial liability as at fair value through profit or loss, paragraph 9 sets out the two circumstances when the requirement for more relevant information will be met. Accordingly, to choose such designation in accordance with paragraph 9, the entity needs to demonstrate that it falls within one (or both) of these two circumstances.

AG4D Under HKAS 39 and HKFRS 9 measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through profit or loss, a financial asset would be classified as measured at fair value in accordance with HKFRS 9 ~~available for sale (with most changes in fair value recognised in other comprehensive income)~~ and a liability the entity considers related would be measured at amortised cost (with changes in fair value not recognised). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were ~~classified~~ measured as at fair value through profit or loss.

AG4E The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 9(b)(i) or paragraph 4.5 of HKFRS 9.

(a) [deleted] ~~An entity has liabilities~~ ... ~~the value of liabilities.~~

(b) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by HKFRS 4, paragraph 24), and financial assets it considers related that would otherwise be ~~classified as available for sale or~~ measured at amortised cost.

(c) ...

(d) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not qualify for hedge accounting because none of the instruments is a derivative. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example,~~:~~

~~(i)~~ ~~the entity has financed a portfolio of fixed rate assets that would otherwise be classified as available for sale with fixed rate debentures whose changes in fair value tend to offset each other. Reporting both the assets and the debentures at fair value through profit or loss corrects the inconsistency that would otherwise arise from measuring the assets at fair value with changes recognised in other comprehensive income and the debentures at amortised cost.~~

~~(ii)~~ the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

Paragraph 9(b)(ii): A group of ~~financial assets,~~ financial liabilities or ~~both~~ <u>financial assets and financial liabilities</u> is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

AG4H An entity may manage and evaluate the performance of a group of ~~financial assets,~~ financial liabilities or ~~both~~ <u>financial assets and financial liabilities</u> in such a way that measuring that group at fair value through profit or loss results in more relevant information. The focus in this instance is on the way the entity manages and evaluates performance, rather than on the nature of its financial instruments.

AG4I <u>For example,</u> ~~The following examples show when this condition could be met. In all cases,~~ an entity may use this condition to designate ~~financial assets or~~ financial liabilities as at fair value through profit or loss ~~only~~ if it meets the principle in paragraph 9(b)(ii) <u>and</u>~~.~~

~~(a) The entity is a venture capital organisation ... HKAS 28 or HKAS 31.~~

~~(b)~~ ~~T~~<u>t</u>the entity has financial assets and financial liabilities that share one or more risks and those risks are managed and evaluated on a fair value basis in accordance with a documented policy of asset and liability management. An example could be an entity that has issued ‘structured products’ containing mulitple embedded derivatives and manages the resulting risks on a fair value basis using a mix of derivative and non-derivative financial instruments. ~~A similar ... financial instruments.~~

~~(c) The entity is an insurer ... subject to the insurer’s discretion.~~

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument’s original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense. ~~If a financial asset is reclassified in accordance with paragraph 50B, 50D or 50E, and the entity subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.~~

The heading above paragraph AG14 and paragraphs AG29 and AG31–AG35 are amended as follows and the headings above paragraphs AG16 and AG26 and paragraphs AG16–AG26 and AG30(b) and (f) are deleted.

Financial ~~assets and financial~~ liabilities held for trading

AG14 …

AG29 Generally, multiple embedded derivatives in a single hybrid contract ~~instrument~~ are treated as a single compound embedded derivative. However, embedded derivatives that are classified as equity (see HKAS 32) are accounted for separately from those classified as assets or liabilities. In addition, if a~~n~~ hybrid contract ~~instrument~~ has more than one embedded derivative and those derivatives relate to different risk exposures and are readily separable and independent of each other, they are accounted for separately from each other.

AG31 An example of a hybrid contract ~~instrument~~ is a financial instrument that gives the holder a right to put the financial instrument back to the issuer in exchange for an amount of cash or other financial assets that varies on the basis of the change in an equity or commodity index that may increase or decrease (a 'puttable instrument'). Unless the issuer ...

AG32 In the case of a puttable instrument that can be put back at any time for cash equal to a proportionate share of the net asset value of an entity (such as units of an open-ended mutual fund or some unit-linked investment products), the effect of separating an embedded derivative and accounting for each component is to measure the hybrid contract ~~combined instrument~~ at the redemption amount that is payable at the end of the reporting period if the holder exercised its right to put the instrument back to the issuer.

AG33 The economic characteristics and risks of an embedded derivative are closely related to the economic characteristics and risks of the host contract in the following examples. In these examples, an entity does not account for the embedded derivative separately from the host contract.

(a) An embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract or insurance contract is closely related to the host contract unless the hybrid contract ~~combined instrument~~ can be settled in such a way that the holder would not recover substantially all of its recognised investment or the embedded derivative could at least double the holder's initial rate of return on the host contract and could result in a rate of return that is at least twice what the market return would be for a contract with the same terms as the host contract.

(b) ...

AG33A When an entity becomes a party to a hybrid (combined) contract ~~instrument~~ that contains one or more embedded derivatives, paragraph 11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through profit or loss. For that reason this Standard permits the entire hybrid contract ~~instrument~~ to be designated as at fair value through profit or loss.

AG33B Such designation may be used whether paragraph 11 requires the embedded derivatives to be separated from the host contract or prohibits such separation. However, paragraph 11A would not justify designating the hybrid (combined) contract ~~instrument~~ as at fair value through profit or loss in the cases set out in paragraph 11A(a) and (b) because doing so would not reduce complexity or increase reliability.

AG34 As a consequence of the principle in paragraph 14 and paragraph 3.1.1 of HKFRS 9, an entity recognises …

AG35 The following are examples of applying the principle in paragraph 14 and paragraph 3.1.1 of HKFRS 9:

(a) ...

Paragraphs AG50, AG53 and AG56 are amended as follows:

AG50 To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. If the transferor has both a right and an obligation to reacquire control of the entire transferred asset for a fixed amount (such as under a repurchase agreement), the transferee may measure ~~account for~~ its receivable at amortised cost if it meets the criteria in paragraph 4.2 ~~in~~ of HKFRS 9 ~~as a loan or receivable~~.

AG53 A regular way purchase or sale of financial assets is recognised using either trade date accounting or settlement date accounting as described in paragraphs AG55 and AG56. An entity shall apply the same method ~~The method used is applied~~ consistently for all purchases and sales of financial assets that are classified in the same way in accordance with HKFRS 9 ~~belong to the same category of financial assets defined in paragraph 9~~. For this purpose assets that ~~are~~ meet the definition of held for trading form a separate ~~category~~ classification from assets designated as measured at fair value through profit or loss. In addition, investments in equity instruments accounted for using the option provided in paragraph 5.4.4 of HKFRS 9 form a separate classification.

AG56 … In other words, the change in value is not recognised for assets measured ~~carried~~ at ~~cost or~~ amortised cost; it is recognised in profit or loss for assets classified as financial assets measured at fair value through profit or loss; and it is recognised in other comprehensive income for investments in equity instruments accounted for in accordance with paragraph 5.4.4 of HKFRS 9 ~~assets classified as available for sale~~.

Paragraphs AG65–AG68 are deleted. The headings above paragraph AG64 and paragraphs AG64 and AG76A are amended as follows:

Measurement (paragraphs 43–~~70~~65)

Initial measurement of ~~financial assets and~~ financial liabilities (paragraph 43)

AG64 The fair value of a financial ~~instrument~~ liability on initial recognition is normally the transaction price (ie the fair value of the consideration ~~given or~~ received, see also paragraph AG76). However, if part of the consideration given or received is for something other than the financial ~~instrument~~ liability, the fair value of the financial

~~instrument~~ liability is estimated, using a valuation technique (see paragraphs AG74–AG79). ~~For example, the fair value of a long term loan or receivable that carries no interest can be estimated as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.~~

AG76A The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard or HKFRS 9 as appropriate. The application …

The heading above paragraph AG80 and paragraphs AG80 and AG81 are amended as follows:

No active market: derivatives on unquoted equity instruments

AG80 The fair value of ~~investments in equity instruments that do not have a quoted market price in an active market and~~ derivatives that are linked to and must be settled by delivery of ~~such an~~ unquoted equity instruments (see paragraph~~s 46~~~~(c)~~ ~~and~~ 47(a)) is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

AG81 There are many situations in which the variability in the range of reasonable fair value estimates of ~~investments in equity instruments that do not have a quoted market price and~~ derivatives that are linked to and must be settled by delivery of ~~such an~~ unquoted equity instruments (see paragraph~~s 46(c) and~~ 47(a)) is likely not to be significant. Normally it is possible to estimate the fair value of such derivatives ~~a financial asset~~ that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

The headings above paragraph AG84 and paragraphs AG83 and AG84 are amended as follows:

AG83 An entity applies HKAS 21 to ~~financial assets and~~ financial liabilities that are monetary items in accordance with HKAS 21 and denominated in a foreign currency. Under HKAS 21, any foreign exchange gains and losses on ~~monetary assets and~~ monetary liabilities are recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge (see paragraphs 95–101) or a hedge of a net investment (see paragraph 102). ~~For the purpose of recognising foreign exchange gains and losses under HKAS 21, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in accordance with paragraph 55(b). For available-for-sale financial assets that are not monetary items under HKAS 21 (for example, equity instruments), the gain or loss that is recognised in other comprehensive income under paragraph 55(b) includes any related foreign exchange component.~~ If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are recognised in profit or loss.

Impairment and uncollectibility of financial assets measured at amortised cost (paragraphs 58–~~70~~65)

~~Financial assets carried at amortised cost (paragraphs 63–65)~~

AG84 Impairment of a financial asset ~~carried~~ measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a financial asset measured at amortised cost ~~loan, receivable or held-to-maturity investment~~ are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a financial asset measured at amortised cost ~~loan, receivable or held-to-maturity investment~~ has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset measured ~~carried~~ at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Paragraphs AG95 and AG96 are amended as follows:

AG95 A financial asset measured ~~held-to-maturity investment carried~~ at amortised cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG96 ~~An investment in an~~ A derivative that is linked to and must be settled by delivery of unquoted equity instruments ~~that~~ and is not carried at fair value because its fair value cannot be reliably measured ~~or a derivative that is linked to and must be settled by delivery of such an unquoted equity instrument~~ (see paragraph~~s 46~~(c) ~~and~~ 47(a)) cannot be designated as a hedging instrument.

Paragraph AG114(a) is amended as follows:

AG114 ...

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios ~~(eg the entity may group its available-for-sale assets into a separate portfolio)~~, in which case it applies the guidance below to each portfolio separately.

In the heading above paragraph AG133, the reference to 'paragraphs 103–108B' is amended to 'paragraphs 103–108C'.

HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

C29 In the rubric the reference to 'paragraphs 1–10' is amended to 'paragraphs 1–11'. In the 'References' section, a reference to HKFRS 9 *Financial Instruments* is added. Paragraphs 1, 2, 7 and 8 are amended, paragraph 11 is added and paragraphs 5 and 6 are deleted as follows:

1 An entity is required to assess goodwill for impairment at the end of each reporting period~~, to assess investments in equity instruments and in financial assets carried at cost for impairment at the end of each reporting period~~ and, if required, to recognise an impairment loss at that date in accordance with HKAS 36 ~~and HKAS 39~~. However, …

2 The Interpretation addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 ~~and certain financial assets in HKAS 39~~, and the effect of that interaction on subsequent interim and annual financial statements.

7 The Interpretation addresses the following issue:

> Should an entity reverse impairment losses recognised in an interim period on goodwill ~~and investments in equity instruments and in financial assets carried at cost~~ if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill ~~or an investment in either an equity instrument or a financial asset carried at cost~~.

11 HKFRS 9, issued in November 2009, amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5 and 6. An entity shall apply those amendments when it applies HKFRS 9.

HK(IFRIC)-Int 12 *Service Concession Arrangements*

C30 In the 'References' section, a reference to HKFRS 9 *Financial Instruments* is added. Paragraphs 23–25 are amended and paragraph 28A is added as follows:

23 HKASs 32 and 39 and HKFRSs 7 <u>and 9</u> apply to the financial asset recognised under paragraphs 16 and 18.

24 The amount due from or at the direction of the grantor is accounted for in accordance with <u>HKFRS 9</u> ~~HKAS 39~~ as:

(a) <u>at amortised cost</u> ~~a loan or receivable~~; <u>or</u>

(b) <u>measured at fair value through profit or loss</u> ~~an available-for-sale financial asset; or~~<u>.</u>

~~(c)~~ ~~if so designated upon initial recognition, a financial asset at fair value through profit or loss, if the conditions for that classification are met.~~

25 If the amount due from the grantor is accounted for ~~either as a loan or receivable or as an available-for-sale financial asset~~ <u>at amortised cost, HKFRS 9</u> ~~HKAS 39~~ requires interest calculated using the effective interest method to be recognised in profit or loss.

28A HKFRS 9, issued in November 2009, amended paragraphs 23–25. An entity shall apply those amendments when it applies HKFRS 9.

Amendments to guidance on other HKFRSs

The following amendments to guidance on HKFRSs are necessary in order to ensure consistency with HKFRS 9 Financial Instruments *and the related amendments to other HKFRSs. In the amended paragraphs, new text is underlined and deleted text is struck through.*

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

IGA1 In the guidance on implementing IFRS 1 (both June 2003 and November 2008 versions), the heading above paragraph IG52 and paragraphs IG52-IG55, IG56, IG58, IG58A and IG59 are amended as follows:

IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening IFRS statement of financial position in accordance with IFRS 9 and IAS 39 respectively, except as specified in paragraphs B2–B6 of the IFRS, which address derecognition and hedge accounting.

IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IAS 39 and IFRS 9 and have not yet qualified for derecognition in accordance with IAS 39, except non-derivative financial assets and non-derivative financial liabilities derecognised in accordance with previous GAAP before 1 January 2004, to which the entity does not choose to apply paragraph B3 (see paragraphs B2 and B3 of the IFRS). For example, an entity that does not apply paragraph B3 does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before 1 January 2004 if those transactions qualified for derecognition in accordance with previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after 1 January 2004, those further transfers qualify for derecognition only if they meet the derecognition criteria of IAS 39.

IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition in accordance with IAS 39 or IFRS 9, or have already qualified for derecognition in accordance with IAS 39.

IG55 When IAS 39 requires an entity to separate an embedded derivative from a host contract outside the scope of IFRS 9~~ *Financial Instruments*~~, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IAS 39 reflect circumstances at that date (IAS 39 paragraph 11). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it ~~treats~~ designates the entire combined contract as ~~a financial instrument held for trading~~ at fair value through profit or loss (IAS 39 paragraph 12). ~~This results in fair value measurement (except when the entity cannot determine a reliable fair value, see IAS 39 paragraph 46(c)), with changes in fair value recognised in profit or loss.~~

IG56 In preparing its opening IFRS statement of financial position, an entity applies the criteria in IAS 39 and IFRS 9 to identify on the basis of the facts and circumstances that exist at the date of transition to IFRSs those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. The resulting classifications are applied retrospectively. ~~In particular:~~

~~(a) to comply with ...~~

...

~~(e) ... any of the previous categories.~~

IG58 An entity's estimates of ~~loan~~ impairments of financial assets measured at amortised cost at the date of transition to IFRSs are consistent with estimates made for the same date …

IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to IFRSs only to the extent that it results from adopting IAS 39 and IFRS 9. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are ~~classified as held for trading~~ measured at fair value through profit or loss, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which IAS 39 and IFRS 9 are ~~is~~ initially applied (other than for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre-~~IAS 39~~ IFRS 9 revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of ~~IAS 39~~ IFRS 9. If, on initial application of ~~IAS 39~~ IFRS 9, an investment in an equity instrument is classified as ~~available for sale~~ at fair value through other comprehensive income, then the pre-~~IAS 39~~ IFRS 9 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the ~~available-for-sale~~ financial asset in other comprehensive income (except dividends, which are recognised in profit or loss) and accumulates the cumulative gains and losses in that separate component of equity. ~~until the investment is impaired, sold, collected or otherwise disposed of.~~ On subsequent derecognition ~~or impairment of the available-for-sale financial asset~~, the entity ~~reclassifies to profit or loss the cumulative gain or loss remaining in equity (IAS 39 paragraph 55(b)).~~ may transfer that separate component of equity within equity.

IGA2 IG Example 11 in paragraph IG63 is amended as follows:

The table 'Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)' is amended to read as follows:

Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)

Note		*Previous GAAP*	*Effect of transition to IFRSs*	*IFRSs*
		CU	CU	CU
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58
3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
5	Hedging reserve	0	302	302
9	Retained earnings	5,060	773	5,833
	Total equity	6,560	1,075	7,635

Note 3 to the reconciliation of equity at 1 January 20X4 is amended as follows:

3 Financial assets are all classified as ~~available for sale~~ at fair value through profit or loss in accordance with IFRSs and are carried at their fair value of CU3,891. They were carried at cost of CU3,471 in accordance with previous GAAP. The resulting gains of CU294 (CU420, less related deferred tax of CU126) are included in ~~the revaluation surplus~~ retained earnings.

Note 8 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

8 The above changes increased the deferred tax liability as follows:

	CU
Hedging reserve (note 5)	129
Retained earnings	331
Increase in deferred tax liability	460

Because the tax base at 1 January 20X4 of the items reclassified from intangible assets to goodwill (note 2) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.

Note 9 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

9 The adjustments to retained earnings are as follows:

	CU
Depreciation (note 1)	100
Financial assets (note 3)	420
Production overhead (note 4)	400
Pension liability (note 6)	(66)
Restructuring provision (note 7)	250
Tax effect of the above	(331)
Total adjustment to retained earnings	773

The reconciliation of total comprehensive income for 20X4 is amended to read as follows:

Reconciliation of total comprehensive income for 20X4

Note		*Previous GAAP*	*Effect of transition to IFRSs*	*IFRSs*
		CU	CU	CU
	Revenue	20,910	0	20,910
1, 2, 3	Cost of sales	(15,283)	(97)	(15,380)
	Gross profit	5,627	(97)	5,530
6	Other income	0	180	180
1	Distribution costs	(1,907)	(30)	(1,937)
1, 4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(247)	175
5	Tax expense	(158)	74	(84)
	Profit (loss) for the year	264	(173)	91
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	Other comprehensive income	0	(69)	(69)
	Total comprehensive income	264	(242)	22

Note 6 to the reconciliation of total comprehensive income for 20X4 is amended as follows:

6	~~Available-for-sale f~~ Financial assets at fair value through profit or loss ~~carried at fair value in accordance with IFRSs~~ increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. Fair value changes have been included in 'Other income'. ~~The entity sold available-for-sale financial assets during the year, recognising a gain of CU40 in profit or loss. Of that realised gain CU30 had been included in the revaluation surplus as at 1 January 20X4 and is reclassified from revaluation surplus to profit or loss (as a reclassification adjustment).~~

HKFRS 4 *Insurance Contracts*

IGA3 The guidance on implementing IFRS 4 is amended as described below.

In the table in IG Example 1, the 'Treatment in Phase I' column of contract type 1.18 is amended as follows:

> Insurance risk is insignificant. Therefore, the contract is a financial ~~instrument~~ asset within the scope of ~~IAS 39~~ IFRS 9. Servicing fees are within the scope of IAS 18 (recognise as services are provided, subject to various conditions).

IG Example 4 in paragraph IG10 is amended as follows:

IG Example 4: Shadow accounting

Background

...

At the inception of a contract, insurer A has DAC of CU20 relating to that contract and the present value, at inception, of EGP is CU100. In other words, DAC is 20 per cent of EGP at inception. Thus, for each CU1 of realised gross profits, insurer A amortises DAC by CU0.20. For example, if insurer A sells assets and recognises a gain of CU10, insurer A amortises DAC by CU2 (20 per cent of CU10).

~~Before adopting IFRSs for the first time in 20X5, insurer A measured financial assets on a cost basis. (Therefore, EGP under those national requirements considers only realised gains and losses.) However, under IFRSs, it classifies its financial assets as~~ measured at fair value through profit or loss. ~~available for sale. Thus, insurer A measures the assets at fair value and recognises changes in their fair value in other comprehensive income. In 20X5, insurer A recognises unrealised gains of CU10 on the assets backing the contract.~~

~~In 20X6, insurer A sells the assets for an amount equal to their fair value at the end of 20X5 and, to comply with IAS 39, reclassifies the now-realised gain of CU10 from equity to profit or loss as a reclassification adjustment.~~

~~*Application of paragraph 30 of the IFRS*~~

~~...~~

Before adopting IFRSs for the first time in 20X5, insurer A measured financial assets on a cost basis. (Therefore, EGP under those national requirements considers only realised gains and losses.) However, under IFRSs, it classifies its financial assets as measured at fair value through profit or loss. ~~available for sale. Thus, insurer A measures the assets at fair value and recognises changes in their fair value in other comprehensive income.~~

In 20X5~~,~~ insurer A recognises unrealised gains of CU10 on the assets backing the contract~~.~~ and ~~I~~in 20X6~~, insurer A~~ it sells the assets for an amount equal to their fair value at the end of 20X5 ~~and, to comply with IAS 39, reclassifies the now realised gain of CU10 from equity to profit or loss as a reclassification adjustment~~.

Application of paragraph 30 of the IFRS

Paragraph 30 of the IFRS permits, but does not require, insurer A to adopt shadow accounting. If insurer A adopts shadow accounting, it amortises DAC in 20X5 by an additional CU2 (20 per cent of CU10) as a result of the change in the fair value of the assets. ~~Because insurer A recognised the change in their fair value in other comprehensive income, it~~ Insurer A recognises the additional amortisation of CU2 in ~~other comprehensive income~~ profit or loss.

When insurer A sells the assets in 20X6, it makes no further adjustment to DAC.~~, but reclassifies DAC amortisation of CU2, relating to the now-realised gain, from equity to profit or loss as a reclassification adjustment.~~

In summary, shadow accounting treats an unrealised gain in the same way as a realised gain.~~, except that the unrealised gain and resulting DAC amortisation are (a) recognised in other comprehensive income rather than in profit or loss and (b) reclassified from equity to profit or loss when the gain on the asset becomes realised.~~ If insurer A does not adopt shadow accounting, unrealised gains on assets do not affect the amortisation of DAC.

HKFRS 7 *Financial Instruments: Disclosures*

IGA4 In the guidance on implementing IFRS 7, the table in paragraph IG13A is amended to read as follows:

Assets measured at fair value

		Fair value measurement at 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
Financial assets at fair value through other comprehensive income				
Equity investments	75	30	40	5
Total	214	87	115	12

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

IGA5 The table in paragraph IG13B is amended to read as follows:

Assets measured at fair value based on Level 3

	Financial value measurement at the end of the reporting period			
	Financial assets at fair value			**Total**
	Trading securities	Trading derivatives	Equity investments	
	CU million	CU million	CU million	CU million
Opening balance	6	5	3	14
Total gains or losses				
in profit or loss	(2)	(2)	-	(4)
in other comprehensive income	–	–	1	1
Purchases	1	2	1	4
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 assets held at the end of the reporting period	(1)	(1)	-	(2)

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.)

IGA6 Paragraph IG14 is amended as follows:

IG14 ... In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IAS 39 (for financial liabilities) or IFRS 9 (for financial assets) and the entity's accounting policy. Such recognition ...

In the illustrative disclosure following paragraph IG14, the references to 'IAS 39' are replaced with 'IFRS 9'.

IGA7 Paragraph IG36 is amended as follows:

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

Interest rate risk

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings~~, and other comprehensive income would have been CU2.8 million (20X1—CU3.2 million) higher, arising mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale~~. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings~~, and other comprehensive income would have been CU3.0 million (20X1—CU3.4 million) lower, arising mainly as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale~~. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X). [footnote omitted] ...

HKAS 1 *Presentation of Financial Statements*

IGA8 In the guidance on implementing IAS 1, the heading above paragraph IG7 and paragraphs IG7–IG9 are deleted. Paragraph IG2 is amended as follows:

IG2 The guidance is in ~~three~~ two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. ~~provide an example of the determination of reclassification adjustments for available-for-sale financial assets in accordance with IAS 39~~ ~~*Financial Instruments: Recognition and Measurement.*~~ Paragraphs IG10 and IG11 provide examples of capital disclosures.

IGA9 In the illustrative financial statements, references to 'Available-for-sale financial assets' are replaced by 'Investments in equity instruments'. In the single statement of comprehensive income the reference to footnote (b) against the deleted line item 'Available-for-sale financial assets' is deleted. The heading and table 'Disclosure of components of other comprehensive income' are amended to read as follows:

Part I: Illustrative presentation of financial statements

Disclosure of components of other comprehensive income
[footnote omitted]

Notes

Year ended 31 December 20X7
(in thousands of currency units)

		20X7		**20X6**
Other comprehensive income:				
Exchange differences on translating foreign operations [footnote omitted]		5,334		10,667
Investments in equity instruments		(24,000)		26,667
Cash flow hedges:				
Gains (losses) arising during the year	(4,667)		(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	3,333		–	
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	667	(667)	–	(4,000)
Gains on property revaluation		933		3,367
Actuarial gains (losses) on defined benefit pension plans		(667)		1,333
Share of other comprehensive income of associates		400		(700)
Other comprehensive income		(18,667)		37,334
Income tax relating to components of other comprehensive income [footnote omitted]		4,667		(9,334)
Other comprehensive income for the year		**(14,000)**		**28,000**

IGA10 ~~Footnote (b) is deleted and t~~The second paragraph in footnote (k) to the illustrative financial statements is amended as follows:

(k) The amount included in the translation, investments in equity instruments ~~available-for-sale~~ and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments ~~available-for-sale financial assets~~ for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

IGA11 The second paragraph in footnote (l) to the illustrative financial statements is amended as follows:

(l) The amount included in the translation, investment in equity instruments ~~available-for-sale~~ and cash flow hedge reserves represent other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

HKAS 18 *Revenue*

IGA12 In the appendix to IAS 18, examples 5 and 14(a) are amended as follows:

5 ...

For a sale and repurchase agreement on an asset other than a financial asset, the terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* apply ~~applies~~.

14 *Financial service fees*

...

(a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

...

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under* IFRS 9 ~~*IAS 39*~~ *is* measured ~~*classified*~~ ~~*as a financial asset '*~~*at fair value through profit or loss*~~*'*~~*.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs [footnote omitted] (as defined in IAS 39), are deferred and recognised as an adjustment to the effective interest rate.

...

HKAS 27 *Consolidated and Separate Financial Statements*

IGA13 In the guidance on implementing IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates*, and IAS 31 *Interests in Joint Ventures*, paragraph IG7 is amended as follows:

IG7 IAS 39 *Financial Instruments: Recognition and Measurement* <u>and IFRS 9 *Financial Instruments*</u> do~~es~~ not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IAS 27, IAS 28 and IAS 31 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of IAS 39 <u>and IFRS 9</u>. In all other cases, instruments containing potential voting rights are accounted for in accordance with IAS 39 <u>and IFRS 9</u>.

HKAS 39 *Financial Instruments: Recognition and Measurement*

IGA14 In the guidance on implementing IAS 39 the following Questions and Answers (Q&A) are deleted:

- Section B Definitions: B.12–B.23
- Section C Embedded Derivatives: C.3, C.5, C.11
- Section E Measurement: E.3.1, E.3.2, E.4.9, E.4.10
- Section F Hedged items: F.1.1, F.1.10, F.2.9–F.2.11, F.2.19, F.2.20

IGA15 In the answer to Question B.4, the last paragraph is amended as follows:

If the fixed leg is prepaid during the term, that would be regarded as a termination of the old swap and an origination of a new instrument that is evaluated under IAS 39 <u>and IFRS 9</u>.

IGA16 In the answer to Question B.5, the reference to 'IAS 39' in the second last sentence is replaced with 'IAS 39 or IFRS 9'.

IGA17 Question B.26 is amended as follows:

~~Financial assets that are excluded from fair valuation and have a fixed maturity should be measured at amortised cost.~~ How is amortised cost calculated <u>for financial assets measured at amortised cost in accordance with IFRS 9</u>?

IGA18 In Q&As C.1 and C.2, references to 'hybrid instrument' are replaced with 'hybrid contract'.

IGA19 Q&A C.6 is amended as follows:

Entity A <u>issues</u> ~~acquires~~ a five-year floating rate debt instrument ~~issued by Entity B~~. At the same time, it enters into a five-year pay-<u>fixed</u> ~~variable~~, receive-<u>variable</u> ~~fixed~~ interest rate swap with Entity <u>B</u>~~C~~. Entity A regards the combination of the debt instrument and swap as a synthetic fixed rate instrument ~~and classifies the instrument as a held-to-maturity investment, since it has the positive intention and ability to hold it to maturity~~. Entity A contends that separate accounting for the swap is inappropriate since IAS 39.AG33(a) requires an embedded derivative to be classified together with its host instrument if the derivative is linked to an interest rate that can change the amount of interest that would otherwise be paid or received on the host debt contract. Is the entity's analysis correct?

No. Embedded derivative instruments are terms and conditions that are included in non-derivative host contracts. It is generally inappropriate to treat two or more separate financial instruments as a single combined instrument ('synthetic instrument' accounting) for the purpose of applying IAS 39 <u>or IFRS 9</u>. Each of the financial instruments has its own terms and conditions and each may be transferred or settled separately. Therefore, the debt instrument and the swap are classified separately. The transactions described here differ from the transactions discussed in Question B.6, which had no substance apart from the resulting interest rate swap.

IGA20 In Q&A C.10, references to 'combined instrument' are replaced with 'combined contract'.

IGA21 The tables in Q&A D.2.1 are amended to read as follows:

Settlement date accounting			
Balances	**Financial assets measured at amortised cost**	**Financial assets measured at fair value with changes presented in other comprehensive income**	**Financial assets measured at fair value through profit or loss**
29 December 20X1			
Financial asset	–	–	–
Financial liability	–	–	–
31 December 20X1			
Receivable	–	2	2
Financial asset	–	–	–
Financial liability	–	–	–
Other comprehensive income (fair value adjustment)	–	(2)	–
Retained earnings (through profit or loss)	–	–	(2)
4 January 20X2			
Receivable	–	–	–
Financial asset	1,000	1,003	1,003
Financial liability	–	–	–
Other comprehensive income (fair value adjustment)	–	(3)	–
Retained earnings (through profit or loss)	–	–	(3)

~~Settlement date~~ Trade date accounting			
Balances	**Financial assets measured at amortised cost**	**Financial assets measured at fair value with changes presented in other comprehensive income**	**Financial assets measured at fair value through profit or loss**
29 December 20X1			
Financial asset	1,000	1,000	1,000
Financial liability	(1,000)	(1,000)	(1,000)
31 December 20X1			
Receivable	–	–	–
Financial asset	1,000	1,002	1,002
Financial liability	(1,000)	(1,000)	(1,000)
Other comprehensive income (fair value adjustment)	–	(2)	–
Retained earnings (through profit or loss)	–	–	(2)
4 January 20X2			
Receivable	–	–	–
Financial asset	1,000	1,003	1,003
Financial liability	–	–	–
Other comprehensive income (fair value adjustment)	–	(3)	–
Retained earnings (through profit or loss)	–	–	(3)

IGA22 The tables in Q&A D.2.2 are amended to read as follows:

Settlement date accounting		
Balances	**Financial assets measured at amortised cost**	**Financial assets measured at fair value through profit or loss**
29 December 20X2		
Receivable	–	–
Financial asset	1,000	1,010
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	–	10
31 December 20X2		
Receivable	–	–
Financial asset	1,000	1,000
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	–	10
4 January 20X3		
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	10	10

Trade date accounting		
Balances	**Financial assets measured at amortised cost**	**Financial assets measured at fair value through profit or loss**
29 December 20X2		
Receivable	1,010	1,010
Financial asset	–	–
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	10	10
31 December 20X2		
Receivable	1,010	1,010
Financial asset	–	–
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	10	10
4 January 20X3		
Other comprehensive income (fair value adjustment)	–	–
Retained earnings (through profit or loss)	10	10

IGA23 In the answer to Question D.2.3, the second paragraph is amended as follows:

To illustrate: on 29 December 20X2 (trade date) Entity A enters into a contract to sell Note Receivable A, which is ~~carried~~ measured at amortised cost, in exchange for Bond B, which meets the definition of ~~will be classified as~~ held for trading and is measured at fair value. Both assets have a fair value of CU1,010 on 29 December, while the amortised cost of Note Receivable A is CU1,000. Entity A uses settlement date accounting for ~~loans and receivables~~ financial assets measured at amortised cost and trade date accounting for assets that meet the definition of held for trading. On 31 December 20X2 (financial year-end), the fair value of Note Receivable A is CU1,012 and the fair value of Bond B is CU1,009. On 4 January 20X3, the fair value of Note Receivable A is CU1,013 and the fair value of Bond B is CU1,007. The following entries are made:

…

IGA24 The answer to Question E.1.1 is amended as follows:

For financial assets not measured at fair value through profit or loss, ~~incremental costs that are directly attributable to the acquisition of the asset, for example fees and commissions,~~ transaction costs are added to the fair value at initial recognition ~~amount originally recognised~~. For financial liabilities, transaction costs are deducted from the fair value at initial recognition. ~~directly related costs of issuing debt are deducted from the amount of debt originally recognised. For financial instruments that are measured at fair value through profit or loss, transaction costs are not added to the fair value measurement at initial recognition.~~

For financial instruments that are ~~carried~~ measured at amortised cost, ~~such as held-to-maturity investments, loans and receivables, and financial liabilities that are not at fair value through profit or loss,~~ transaction costs are subsequently included in the calculation of amortised cost using the effective interest method and, in effect, amortised through profit or loss over the life of the instrument.

~~For available-for-sale financial assets, transaction costs are recognised in other comprehensive income as part of a change in fair value at the next remeasurement. If an available-for-sale financial asset has fixed or determinable payments and does not have an indefinite life, the transaction costs are amortised to profit or loss using the effective interest method. If an available-for-sale financial asset does not have fixed or determinable payments and has an indefinite life, the transaction costs are recognised in profit or loss when the asset is derecognised or becomes impaired.~~

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

IGA25 Q&A E.3.3 is amended as follows:

E.3.3 IFRS 9, IAS 39 and IAS 21 Exchange differences arising on translation of foreign entities: other comprehensive income or profit or loss?

IAS 21.32 and IAS 21.48 state~~s~~ that all exchange differences resulting from translating the financial statements of a foreign operation should be recognised in other comprehensive income until disposal of the net investment. This would include exchange differences arising from financial instruments carried at fair value, which would include ~~both~~ financial assets ~~classified as~~ measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* ~~and financial assets that are available for sale~~.

~~IAS 39.55 requires that changes in fair value of financial assets classified as at fair value through profit or loss should be recognised in profit or loss and changes in fair value of available-for-sale investments should be recognised in other comprehensive income.~~

If the foreign operation is a subsidiary whose financial statements are consolidated with those of its parent, in the consolidated financial statements how are ~~IAS 39.55~~ IFRS 9 and IAS 21.39 applied?

~~IAS 39~~ IFRS 9 applies in the accounting for financial instruments in the financial statements of a foreign operation and IAS 21 applies in translating the financial statements of a foreign operation for incorporation in the financial statements of the reporting entity.

To illustrate: Entity A is domiciled in Country X and its functional currency and presentation currency are the local currency of Country X (LCX). A has a foreign subsidiary (Entity B) in Country Y whose functional currency is the local currency of Country Y (LCY). B is the owner of a debt instrument, which ~~is~~ meets the definition of held for trading and is therefore measured ~~carried~~ at fair value ~~under IAS 39~~.

...

IGA26 Q&A E.3.4 is amended as follows:

E.3.4 IFRS 9, IAS 39 and IAS 21 Interaction between IFRS 9, IAS 39 and IAS 21

IFRS 9 and IAS 39 include~~s~~ requirements about the measurement of financial assets and financial liabilities and the recognition of gains and losses on remeasurement in profit or loss. IAS 21 includes rules about the reporting of foreign currency items and the recognition of exchange differences in profit or loss. In what order are IAS 21, ~~and~~ IFRS 9 and IAS 39 applied?

Statement of financial position

Generally, the measurement of a financial asset or financial liability at fair value, cost or amortised cost is first determined in the foreign currency in which the item is denominated in accordance with IFRS 9 and IAS 39. Then, the foreign currency amount is translated into the functional currency using the closing rate or a historical rate in accordance with IAS 21 (IAS 39.AG83). For example, if a monetary financial asset (such as a debt instrument) is measured ~~carried~~ at amortised cost in accordance with IFRS 9 ~~under IAS 39~~, amortised cost is calculated in the currency of denomination of that financial asset. Then, the foreign currency amount is recognised using the closing rate in the entity's financial statements (IAS 21.23). That applies regardless of whether a monetary item is measured at cost, amortised cost or fair value in the foreign currency (IAS 21.24). A non-monetary financial asset (such as an investment in an equity instrument) is translated using the closing rate if it is ~~carried~~ measured at fair value in the foreign currency (IAS 21.23(c)) ~~and at a historical rate if it is not carried at fair value under IAS 39 because its fair value cannot be reliably measured (IAS 21.23(b) and IAS 39.46(c))~~.

...

Profit or loss

...

Any exchange difference arising on recognising a *monetary item* at a rate different from that at which it was initially recognised during the period, or recognised in previous financial statements, is recognised in profit or loss or in other comprehensive income in accordance with IAS 21 (IAS 39.AG83, IAS 21.28 and IAS 21.32), unless the monetary item is designated as a cash flow hedge of a highly probable forecast transaction in foreign currency, in which case the requirements for recognition of gains and losses on cash flow hedges in IAS 39 apply (IAS 39.95). Differences arising from recognising a monetary item at a foreign currency amount different from that at which it was previously recognised are accounted for in a similar manner, since all changes in the carrying amount relating to foreign currency movements should be treated consistently. All other changes in the statement of financial position measurement of a monetary item are recognised in profit or loss or in other comprehensive income in accordance with IFRS 9 or IAS 39. ~~For example, although an entity recognises gains and losses on available-for-sale monetary financial assets in other comprehensive income (IAS 39.55(b)), the entity nevertheless recognises the changes in the carrying amount relating to changes in foreign exchange rates in profit or loss (IAS 21.23(a)).~~

Any changes in the carrying amount of a *non-monetary item* are recognised in profit or loss or in other comprehensive income in accordance with IFRS 9 or IAS 39 (IAS 39.AG83). ~~For example, for available-for-sale financial assets the entire change in the carrying amount, including the effect of changes in foreign currency rates, is recognised in other comprehensive income.~~ If the non-monetary item is designated as a cash flow hedge of an unrecognised firm commitment or a highly probable forecast transaction in foreign currency, the requirements for recognition of gains and losses on cash flow hedges in IAS 39 apply (IAS 39.95).

When some portion of the change in carrying amount is recognised in other comprehensive income and some portion is recognised in profit or loss, ~~for example, if the amortised cost of a foreign currency bond classified as available for sale has increased in foreign currency (resulting in a gain in profit or loss) but its fair value has decreased in the functional currency (resulting in a loss recognised in other comprehensive income),~~ an entity cannot offset those two components for the purposes of determining gains or losses that should be recognised in profit or loss or in other comprehensive income.

IGA27 The answer to Question E.4.2 is amended as follows:

No. ~~IAS 39.43~~ Paragraph 5.1 of IFRS 9 requires a financial asset to be initially measured at fair value. For a loan asset, the fair value is the amount of cash lent adjusted for any fees and costs (unless a portion of the amount lent is compensation for other stated or implied rights or privileges). In addition, paragraph 5.2.2 of IFRS 9 requires an entity to apply the impairment requirements in IAS 39. IAS 39.58 requires that an impairment loss is recognised only if there is objective evidence of impairment as a result of a past event that occurred after initial recognition. Accordingly, it is inconsistent with ~~IAS 39.43~~ paragraph 5.1 of IFRS 9 and IAS 39.58 to reduce the carrying amount of a loan asset on initial recognition through the recognition of an immediate impairment loss.

IGA28 Question E.4.5 is amended as follows:

A financial institution calculates impairment in the unsecured portion of ~~loans and receivables~~ financial assets measured at amortised cost on the basis of a provision matrix that specifies fixed provision rates for the number of days a ~~loan~~ financial asset has been classified as non-performing (zero per cent if less than 90 days, 20 per cent if 90–180 days, 50 per cent if 181–365 days and 100 per cent if more than 365 days). Can the results be considered to be appropriate for the purpose of calculating the

impairment loss on <u>the financial assets measured at amortised cost</u> ~~loans and receivables~~ under IAS 39.63?

IGA29 The last sentence of the answer to Question F.1.4 is deleted.

IGA30 The answer to Question F.2.1 is amended as follows:

No. Derivative instruments ~~are~~ always <u>meet the definition of</u> ~~deemed~~ held for trading and <u>are</u> measured at fair value with gains and losses recognised in profit or loss unless they are designated and effective hedging instruments (IAS 39.9 <u>and IFRS 9 paragraphs 4.1–4.5, 5.4.1 and 5.4.3</u>). As an exception, IAS 39.AG94 permits the designation of a purchased option as the hedged item in a fair value hedge.

IGA31 The answer to Question F.2.5 is amended as follows:

Yes. A derivative instrument that will be settled gross can be designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the future transaction that will occur on gross settlement of the derivative contract itself because there would be an exposure to variability in the purchase or sale price without the derivative. This applies to all fixed price contracts that are accounted for as derivatives under IAS 39 <u>and IFRS 9</u>.

For example, if an entity enters into a fixed price contract to sell a commodity and that contract is accounted for as a derivative under IAS 39 <u>and IFRS 9</u> (for example, because the entity has a practice of settling such contracts net in cash or of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin), the entity may designate the fixed price contract as a cash flow hedge of the variability of the consideration to be received on the sale of the asset (a future transaction) even though the fixed price contract is the contract under which the asset will be sold. Also, …

IGA32 Q&A F.2.13 is amended as follows:

Is fair value hedge accounting permitted for exposure to interest rate risk in fixed rate loans that are ~~classified as loans and receivables~~ <u>measured at amortised cost</u>?

Yes. Under <u>IFRS 9,</u> ~~IAS 39, loans and receivables~~ <u>some fixed rate loans</u> are ~~carried~~ <u>measured</u> at amortised cost. Banking institutions in many countries hold the bulk of their <u>fixed rate</u> loans <u>to collect their contractual cash flows</u> ~~and receivables until maturity~~. Thus, changes in the fair value of such <u>fixed rate</u> loans ~~and receivables~~ that are due to changes in market interest rates will not affect profit or loss. IAS 39.86 specifies that a fair value hedge is a hedge of the exposure to changes in fair value that is attributable to a particular risk and that can affect profit or loss. Therefore, IAS 39.86 may appear to preclude fair value hedge accounting for <u>fixed rate</u> loans ~~and receivables~~. However, ~~it follows from IAS 39.79 that loans and receivables can be hedged items with respect to interest rate risk since they are not designated as held-to-maturity investments. T~~<u>t</u>he entity could sell them and the change in fair values would affect profit or loss. Thus, fair value hedge accounting is permitted for <u>fixed rate</u> loans ~~and receivables~~.

IGA33 The last paragraph of the answer to Question F.2.17 is amended as follows:

To illustrate: Entity A acquires a 10 per cent fixed rate government bond with a remaining term to maturity of ten years. Entity A classifies the bond as ~~available for sale~~ <u>measured at amortised cost</u>. To hedge itself against fair value exposure on the bond associated with the present value of the interest rate payments until year 5, Entity A acquires a five-year pay-fixed, receive-floating swap. …

IGA34 In the answer to Question F.5.6, references to 'IAS 39.55(a)' are replaced with 'IAS 39.55'.

IGA35 In the answer to Question F.6.4, the reference to 'IAS 39' in the second sentence is amended to 'IAS 39 or IFRS 9'.

IGA36 Q&A G.1 is amended as follows:

IAS 39 <u>and IFRS 9</u> requires ~~financial assets classified as available for sale (AFS) and~~ <u>remeasurement of</u> financial assets and financial liabilities <u>measured</u> at fair value ~~through profit or loss to be remeasured to fair value~~. Unless a financial asset or a financial liability is designated as a cash flow hedging instrument, fair value changes for financial assets and financial liabilities at fair value through profit or loss are recognised in profit or loss, and fair value changes for ~~AFS assets~~ <u>financial assets designated at fair value through other comprehensive income</u> are recognised in other comprehensive income. What disclosures are required regarding the amounts of the fair value changes during a reporting period?

IFRS 7.20 requires items of income, expense and gains and losses to be disclosed. This disclosure requirement encompasses items of income, expense and gains and losses that arise on remeasurement to fair value. Therefore, an entity provides disclosures of fair value changes, distinguishing between changes that are recognised in profit or loss and changes that are recognised in other comprehensive income. Further breakdown is provided of changes that relate to:

~~(a)~~ ~~AFS assets, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount that was reclassified from equity to profit or loss for the period as a reclassification adjustment;~~

(~~b~~<u>a</u>) financial assets or financial liabilities at fair value through profit or loss, showing separately those fair value changes on financial assets or financial liabilities (i) designated as such upon initial recognition and (ii) <u>mandatorily</u> classified as <u>such</u> ~~held for trading~~ in accordance with ~~IAS 39~~ <u>IFRS 9</u>; and

(~~c~~<u>b</u>) hedging instruments.

<u>In addition, IFRS 7.20A requires an entity to disclose the amount of gain or loss recognised in other comprehensive income for financial assets measured at fair value through other comprehensive income, including any amount transferred within equity.</u>

IFRS 7 neither requires nor prohibits disclosure of components of the change in fair value by the way items are classified for internal purposes. For example, an entity may choose to disclose separately the change in fair value of those derivatives that ~~in accordance with~~ <u>meet the definition of held for trading in</u> IAS 39 ~~it categorises as held for trading~~, but the entity classifies as part of risk management activities outside the trading portfolio.

In addition, IFRS 7.8 requires disclosure of the carrying amounts of financial assets or financial liabilities at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition and (ii) those <u>mandatorily classified as such</u> ~~held for trading~~ in accordance with IAS 39 <u>and IFRS 9</u>.

HK(IFRIC)-Int 12 *Service Concession Arrangements*

IGA37 In the illustrative examples accompanying HK(IFRIC)-Int 12, paragraphs IE7 and IE28 are amended as follows:

IE7 IFRS 9 *Financial Instruments* may require the entity to measure the ~~The~~ amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss ~~meet the definition of a receivable in IAS 39 *Financial Instruments: Recognition and Measurement*~~. If the ~~The~~ receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and~~. It is~~ subsequently ~~measured~~ at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.

IE28 IFRS 9 Financial Instruments may require the entity to measure the ~~The~~ amount due from or at the direction of the grantor in exchange for the construction services at amortised cost ~~meets the definition of a receivable in IAS 39 Financial Instruments: Recognition and Measurement~~. If the ~~The~~ receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and~~. It is~~ subsequently ~~measured~~ at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.