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

MEMBERS' HANDBOOK

Update No. 111

(Issued 30 December 2011)

This Update relates to the issuance of:

- Amendments to HKAS 32 *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities
- Amendments to HKFRS 7 *Financial Instruments: Disclosures* – Disclosures - Offsetting Financial Assets and Financial Liabilities
- Amendments to HKFRS 9 *Financial Instruments* and HKFRS 7 – Mandatory Effective Date of HKFRS 9 and Transition Disclosures

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i - ii & replace with revised pages i - ii.	Revised contents pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 32 *Financial Instruments: Presentation* (Standard)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 28C – 28F after page 28B.	- Notes 1 & 2
HKAS 32 *Financial Instruments: Presentation* (Basis for Conclusions)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 26 – 32 after page 25.	- Notes 1 & 2
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 7 *Financial Instruments: Disclosures* (Standard)	Replace cover page and page 4 with revised cover page and page 4. Insert pages 40A – 40B after page 40 and pages 47 – 51 after page 46.	- Notes 2 &3
HKFRS 7 *Financial Instruments: Disclosures* (Basis for Conclusions)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 29 – 35 after page 28.	- Notes 2 & 3

HKFRS 7 *Financial Instruments: Disclosures* (Implementation Guidance)	Replace cover page and page 2 with revised cover page and page 2. Insert pages 25 – 29 after page 24.	- Notes 2 & 3
HKFRS 9 *Financial Instruments* (Standard)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 103 – 105 after page 102	- Note 3
HKFRS 9 *Financial Instruments* (Basis for Conclusions)	Replace cover page and page 4 with revised cover page and page 4. Insert pages 70A – 70E after page 70.	- Note 3
HKFRS 9 *Financial Instruments* (Implementation Guidance)	Replace cover page and page 3 with revised cover page and page 3. Insert pages 47A – 47D after page 47	- Note 3

Note:

1. Amendments to HKAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify:

   - the meaning of ‘currently has a legally enforceable right of set-off’; and
   - that some gross settlement systems may be considered equivalent to net settlement.

   The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

2. The IASB and the US Financial Accounting Standards Board (FASB) issued common disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. The eligibility criteria for offsetting are different in IFRSs and U.S. Generally Accepted Accounting Principles (US GAAP).

   Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). Unlike IFRSs, US GAAP allows companies the option to present net in their balance sheets derivatives that are subject to a legally enforceable netting arrangement with the same party where rights of set-off are only available in the event of default or bankruptcy.

   To address these differences between IFRSs and US GAAP, in January 2011 the IASB and the FASB issued an exposure draft that proposed new criteria for netting that were narrower than the current conditions currently in US GAAP. However, in response to feedback from their respective stakeholders, the boards decided to retain their existing offsetting models and instead issue new disclosure requirements to allow investors to better compare financial statements prepared in accordance with IFRSs or US GAAP.

The common disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

Companies and other entities are required to apply the amendments for annual periods beginning on or after 1 January 2013, and also interim periods within those annual periods. The required disclosures should be provided retrospectively.

3. Amendments to HKFRS 9 *Financial Instruments* defer its mandatory effective date from 1 January 2013 to 1 January 2015. The deferral will make it possible for all phases of the project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying HKFRS 9. This relief was originally only available to companies that chose to apply HKFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of HKFRS 9 has on the classification and measurement of financial instruments.

   Early application of HKFRS 9 is still permitted.

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HKAS 32
Revised ~~May 2010~~December 2011

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong Accounting Standard 32

Financial Instruments: Presentation

An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in May 2010 for annual periods beginning on or after 1 July 2010.

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Paragraph 43 is amended (new text is underlined).

43 This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 13B–13E of HKFRS 7 for recognised financial instruments that are within the scope of paragraph 13A of HKFRS 7.

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Appendix D

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - effective for annual periods beginning on or after 1 January 2014

The following sets out amendment required for this Standard resulting from amendments to HKAS 32 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.

Effective date and transition

Paragraph 97L is added.

97L *Offsetting Financial Assets and Financial Liabilities* (Amendments to HKAS 32), issued in December 2011, deleted paragraph AG38 and added paragraphs AG38A–AG38F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively. Earlier application is permitted. If an entity applies those amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to HKFRS 7) issued in December 2011.

Application Guidance

Immediately after the heading 'Offsetting a financial asset and a financial liability (paragraphs 42–50)', paragraph AG38 is deleted. Headings and paragraphs AG38A–AG38F are added.

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

AG38A A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG38B To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a) must not be contingent on a future event; and

(b) must be legally enforceable in all of the following circumstances:

(i) the normal course of business;

(ii) the event of default; and

(iii) the event of insolvency or bankruptcy

of the entity and all of the counterparties.

AG38C The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B(b)).

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Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' (paragraph 42(b))

AG38E To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG38F If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

(a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

(d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

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HKAS 32 BC
Revised ~~March 2010~~December 2011

Effective for annual periods
beginning on or after 1 January 2005

Basis for Conclusions on
Hong Kong Accounting Standard 32

Financial Instruments:
Presentation

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Appendix D

Amendments to Basis for Conclusions on IAS 32 *Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - effective for annual periods beginning on or after 1 January 2014

The following sets out amendments required for this Basis for Conclusions resulting from amendments to IAS 32 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.

After paragraph BC74, headings and paragraphs BC75–BC120 are added.

Amendments to the application guidance for offsetting financial assets and financial liabilities

Background

BC75 Following requests from users of financial statements and recommendations from the Financial Stability Board, in June 2010 the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), added a project to their respective agendas to improve, and potentially achieve convergence of, the requirements for offsetting financial assets and financial liabilities. The boards made this decision because the differences in their requirements for offsetting financial assets and financial liabilities cause significant differences between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP. This is particularly so for entities that have large amounts of derivative activities.

BC76 Consequently, in January 2011 the Board published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. The proposals in the exposure draft would have established a common approach with the FASB. The exposure draft also proposed disclosures about financial assets and financial liabilities that are subject to set-off rights and related arrangements (such as collateral agreements), and the effect of those rights and arrangements on an entity's financial position.

BC77 As a result of the feedback received on the exposure draft, the IASB and the FASB decided to maintain their current offsetting models. However, the boards noted that requiring common disclosures of gross and net information would be helpful for users of financial statements. Accordingly, the boards agreed on common disclosure requirements by amending and finalising the disclosures that were initially proposed in the exposure draft. The amendments *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) were issued in December 2011.

BC78 In addition, the IASB decided to add application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This included clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

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Requirements for offsetting financial assets and financial liabilities

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

BC79 To meet the criterion in paragraph 42(a) of IAS 32, an entity must currently have a legally enforceable right to set off the recognised amounts. However, IAS 32 did not previously provide guidance on what was meant by 'currently has a legally enforceable right to set off'. Feedback from the exposure draft revealed inconsistencies in the application of this criterion by IFRS preparers. Consequently, the Board decided to include application guidance in IAS 32 (paragraphs AG38A–AG38D) to clarify the meaning of this criterion.

BC80 The Board believes that the net amounts of financial assets and financial liabilities presented in the statement of financial position should represent an entity's exposure in the normal course of business and its exposure if one of the parties will not or cannot perform under the terms of the contract. The Board therefore clarified in paragraph AG38B that to meet the criterion in paragraph 42(a) of IAS 32 a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must exist for all counterparties so that if an event occurs for one of the counterparties, including the entity, the other counterparty or parties will be able to enforce the right of set-off against the party that has defaulted or gone insolvent or bankrupt.

BC81 If a right of set-off cannot be enforced in the event of default and in the event of insolvency or bankruptcy, then offsetting would not reflect the economic substance of the entity's rights and obligations and would therefore not meet the objective of offsetting in paragraph 43 of IAS 32. The Board uses the term 'in the event of default and in the event of insolvency or bankruptcy' to describe scenarios where an entity will not or cannot perform under the contract.

BC82 The use of the word 'currently' in paragraph 42(a) of IAS 32 means that the right of set-off cannot be contingent on a future event. If a right of set-off were contingent or conditional on a future event an entity would not currently have a (legally enforceable) right of set-off. The right of set-off would not exist until the contingency occurred, if at all.

BC83 In addition, the Board believes that the passage of time or uncertainties in amounts to be paid do not preclude an entity from currently having a (legally enforceable) right of set-off. The fact that the payments subject to a right of set-off will only arise at a future date is not in itself a condition or a form of contingency that prevents offsetting in accordance with paragraph 42(a) of IAS 32.

BC84 However, if the right of set-off is not exercisable during a period when amounts are due and payable, then the entity does not meet the offsetting criterion as it has no right to set off those payments. Similarly, a right of set-off that could disappear or that would no longer be enforceable after a future event that could take place in the normal course of business or in the event of default, or in the event of insolvency or bankruptcy, such as a ratings downgrade, would not meet the currently (legally enforceable) criterion in paragraph 42(a) of IAS 32.

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BC85 The application of the word 'currently' in paragraph 42(a) of IAS 32 was not a source of inconsistency in practice but rather a question that arose as a result of the wording in the exposure draft. Consequently, the Board decided that further application guidance was only required for the legal enforceability part of the criterion.

BC86 In developing the proposals in the exposure draft, the Board concluded that the net amount represents the entity's right or obligation if (a) the entity has the ability to insist on net settlement or to enforce net settlement in all situations (ie the exercise of that right is not contingent on a future event), (b) that ability is assured, and (c) the entity intends to receive or pay a single net amount, or to realise the asset and settle the liability simultaneously.

BC87 Some respondents were concerned that the terms 'in all situations' and 'the ability is assured' as referred to in paragraph BC86 create a higher hurdle than IAS 32 today. The Board however believes that the conclusions in the exposure draft are consistent with the offsetting criteria and principle in IAS 32, specifically paragraphs 42, 43, 46 and 47. In addition, the application guidance in paragraph AG38B of IAS 32 addresses respondents' concerns by clarifying the circumstances in which an entity should be able to net (ie what 'in all situations' means), and by requiring legal enforceability in such circumstances, a term commonly used in applying IAS 32 today.

Applicability to all counterparties

BC88 The proposals in the exposure draft required that the right of set-off be legally enforceable in the event of default and in the event of insolvency or bankruptcy of 'one of the counterparties' (including the entity itself). There were differing views as to whether the requirement that the right of set-off must be enforceable in the event of the entity's default and/or insolvency or bankruptcy changed the criteria in IAS 32 today.

BC89 Some respondents disagreed that the right of set-off must be enforceable in the events of default and insolvency or bankruptcy of the entity. Although consideration is given to enforceability today to achieve offsetting in accordance with IAS 32, some have only focused on the effects of the insolvency or bankruptcy of the counterparty. These respondents questioned whether legal opinions as to enforceability in the event of their own insolvency or bankruptcy could be obtained and considered this to be a change in practice from IAS 32 that could increase costs and the burden for preparers. They also believed that such a requirement would be inconsistent with the going concern basis of preparation for financial statements.

BC90 Other respondents, however, agreed that, to represent the entity's net exposure at all times, the right of set-off must be enforceable in the insolvency or bankruptcy of all of the counterparties to the contract.

BC91 The Board believes that limiting the enforcement of the right of set-off to the event of default and the event of insolvency or bankruptcy of the counterparty (and not the entity itself) is not consistent with the principle and objective of offsetting in IAS 32.

BC92 If a right of set-off cannot also be enforced in the event of default and in the event of insolvency or bankruptcy of the entity, then offsetting would not reflect the economic substance of the entity's rights and obligations or the financial position of the entity (ie offsetting would not reflect an entity's expected future cash flows from settling two or more separate financial instruments in accordance with paragraph 43 of IAS 32) and would therefore not meet the objective of offsetting in IAS 32.

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BC93 Consequently, the Board decided to clarify that, to meet the offsetting criterion in paragraph 42(a) of IAS 32, a right of set-off must be enforceable in the event of default and in the event of insolvency or bankruptcy of both the entity and its counterparties (paragraphs AG38A and AG38B of IAS 32).

Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' (paragraph 42(b))

BC94 In the exposure draft the boards noted that offsetting financial assets and financial liabilities is appropriate and reflects the financial position of an entity only if the entity has, in effect, a right to, or an obligation for, only the net amount (ie the entity has, in effect, a single net financial asset or net financial liability). The amount resulting from offsetting must also reflect the entity's expected future cash flows from settling two or more separate financial instruments. This is consistent with the principle in paragraph 43 of IAS 32.

BC95 When developing that principle the boards understood that entities may currently have a legally enforceable right and desire to settle net, but may not have the operational capabilities to effect net settlement. The gross positions would be settled at the same moment such that the outcome would not be distinguishable from net settlement. As a result the boards included simultaneous settlement as a practical exception to net settlement. Simultaneous settlement was intended to capture payments that are essentially equivalent to actual net settlement. The proposals in the exposure draft also defined simultaneous settlement as settlement 'at the same moment'.

BC96 Simultaneous settlement as 'at the same moment' is already a concept in paragraph 48 of IAS 32 that enables an entity to meet the criterion in paragraph 42(b) of IAS 32. However, feedback received during outreach indicated that there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32. Many preparers and accounting firms have interpreted paragraph 48 of IAS 32 to mean that settlement through a clearing house always meets the simultaneous settlement criterion even if not occurring at the same moment.

BC97 Respondents also noted that settlement of two positions by exchange of gross cash flows at exactly the same moment (simultaneously) rarely occurs in practice today. They argued that 'simultaneous' is not operational and ignores settlement systems that are established to achieve what is economically considered to be net exposure.

BC98 Some preparers also indicated that settlement through some gross settlement mechanisms, though not simultaneous, effectively results in the same exposure as in net settlement or settlement at the same moment and are currently considered to meet the requirements in IAS 32, without actually taking place 'at the same moment'. For particular settlement mechanisms, once the settlement process commences, the entity is not exposed to credit or liquidity risk over and above the net amount and therefore the process is equivalent to net settlement.

BC99 Paragraph 48 of IAS 32 states that simultaneous settlement results in 'no exposure to credit or liquidity risk'. In its redeliberations the Board considered gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk; and (ii) process receivables and payables in a single settlement process. The Board agreed that gross settlement systems with such features are effectively equivalent to net settlement.

BC100 To clarify the application of the IAS 32 offsetting criteria and to reduce diversity in practice, the Board therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement in paragraph AG38F of IAS 32.

BC101 However, the Board decided not to refer specifically to clearing houses or central counterparties when describing systems that may be treated as equivalent to net settlement for the purposes of the set-off criterion. Systems that meet the principle in paragraph AG38F of IAS 32 may be referred to by different names in different jurisdictions. Referring to specific types of settlement systems may exclude other systems that are also considered equivalent to net settlement. In addition, the Board did not want to imply that settlement through specific systems would always meet the net settlement criterion. Entities must determine whether a system meets the principle in paragraph AG38F of IAS 32 by determining whether or not the system eliminates or results in insignificant credit and liquidity risk and processes receivables and payables in the same settlement process or cycle.

Offsetting collateral amounts

BC102 The proposals in the exposure draft specifically prohibited offsetting assets pledged as collateral (or the right to reclaim the collateral pledged) or the obligation to return collateral sold with the associated financial assets and financial liabilities. A number of respondents disagreed with the proposed treatment of collateral and noted that the proposed prohibition was more restrictive than the offsetting criteria in paragraph 42 of IAS 32.

BC103 The offsetting criteria in IAS 32 do not give special consideration to items referred to as 'collateral'. The Board confirmed that a recognised financial instrument referred to as collateral should be set off against the related financial asset or financial liability in the statement of financial position if, and only if, it meets the offsetting criteria in paragraph 42 of IAS 32. The Board also noted that if an entity can be required to return or receive back collateral, the entity would not currently have a legally enforceable right of set-off in all of the following circumstances: in the normal course of business, the event of default and the event of insolvency or bankruptcy of one of the counterparties.

BC104 Because no particular practice concerns or inconsistencies were brought to the Board's attention related to the treatment of collateral in accordance with the offsetting criteria in IAS 32, and as the concerns that arose originated from the proposals in the exposure draft, the Board did not consider it necessary to add application guidance for the treatment of collateral.

Unit of account

BC105 Neither IAS 32 nor the exposure draft specifies the unit of account to which the offsetting requirements should be applied. During the outreach performed on the exposure draft, it became apparent that there was diversity in practice regarding the unit of account that was used for offsetting in accordance with IAS 32.

BC106 Entities in some industries (for example, energy producers and traders) apply the offsetting criteria to identifiable cash flows. Other entities apply the offsetting criteria to entire financial assets and financial liabilities. For those entities (for example, financial institutions), applying the offsetting criteria to individual identifiable cash flows (portions of financial assets and financial liabilities) within contracts would be

impractical and burdensome, even though requiring application of the offsetting criteria to entire financial instruments results in less offsetting in the statement of financial position.

BC107 The Board acknowledged that the focus of the offsetting model is the entity's net exposure and expected future cash flows from settling the related financial instruments.

BC108 The Board also noted that some of the entities for whom the offsetting requirements are most relevant are those that would have the most significant operational challenges with applying the model to individual cash flows (such as financial institutions with large derivative activities). This is important to consider because IAS 32 requires offsetting if the offsetting criteria are met.

BC109 On the other hand, if the application of the offsetting criteria to individual cash flows was prohibited, entities in some industries (for example, energy producers and traders) that apply the criteria in IAS 32 to individual cash flows of financial instruments, and achieve set-off on that basis today, would no longer be permitted to do so.

BC110 The Board considered clarifying the application guidance in IAS 32 to indicate that offsetting should apply to individual cash flows of financial instruments. However, if it made such clarification, the Board felt that it would be necessary to consider an exemption from this requirement on the basis of operational complexity. This would result in the offsetting requirements still being applied differently between entities.

BC111 Although different interpretations of the unit of account are applied today, the Board concluded that this does not result in inappropriate application of the offsetting criteria. The benefits of amending IAS 32 would not outweigh the costs for preparers and therefore the Board decided not to amend the application guidance to IAS 32 on this subject.

Cost-benefit considerations

BC112 Before issuing an IFRS or an amendment to an IFRS, the Board seeks to ensure that it will meet a significant need and that the overall benefits of the resulting information will justify the costs of providing it. The Board issued *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) to eliminate inconsistencies in the application of the offsetting criteria in paragraph 42 of IAS 32 by clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

BC113 Some respondents were concerned that requiring a right of set-off to be enforceable in the event of default and in the event of insolvency or bankruptcy of the entity would increase the cost of applying the offsetting criteria in IAS 32, if, for example, they needed to obtain additional legal opinions on enforceability. However, the Board noted that without this clarification the offsetting criteria would continue to be applied inconsistently, and the resulting offsetting would be inconsistent with the offsetting objective in IAS 32. This would also reduce comparability for users of financial statements. Consequently, the Board concluded that the benefit of clarifying this criterion outweighed the cost to preparers of applying these amendments.

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BC114 During redeliberations the Board also considered feedback received on the proposals in the exposure draft related to the treatment of collateral and unit of account. However, as described in greater detail in other sections of this Basis for Conclusions, the Board did not consider it necessary to add application guidance for the treatment of these items.

BC115 The amendments to the IAS 32 application guidance (paragraphs AG38A–AG38F of IAS 32) are intended to clarify the Board's objective for the offsetting criteria and therefore eliminate inconsistencies noted in applying paragraph 42 of IAS 32.

BC116 Based on the considerations described in the Basis for Conclusions of these amendments, and summarised in paragraphs BC112–BC115, the Board concluded that the benefits of *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) outweigh the costs to preparers of applying those amendments.

Transition and effective date

BC117 During redeliberations, the Board originally decided to require retrospective application of the application guidance in paragraphs AG38A–AG38F of IAS 32 for annual periods beginning on or after 1 January 2013. The Board did not expect significant changes in practice as a result of the clarifications made to the application guidance and hence aligned the effective date and transition of these amendments with that of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), issued in December 2011.

BC118 However, the Board received additional feedback from some preparers that the clarifications to the application guidance could change their practice. These preparers indicated that they needed more time to evaluate the effects of the amendments. They indicated that it would be difficult for them to make this assessment in time to allow application of the amendments to the application guidance for the first comparative reporting period.

BC119 Preparers therefore requested that the Board consider aligning the effective date of the amendments with the revised effective date of IFRS 9 *Financial Instruments* (1 January 2015), with earlier application allowed. This would give them sufficient time to determine if there would be any changes to their financial statements.

BC120 The Board believed that the amendments to the IAS 32 application guidance should be effective as soon as possible to ensure comparability of financial statements prepared in accordance with IFRSs. In addition, the Board did not consider that the effective date needed to be aligned with that of IFRS 9. However, the Board also understood the concerns of preparers. The Board therefore decided to require the amendments to the IAS 32 application guidance to be effective for periods beginning 1 January 2014 with earlier application permitted. This would provide a balance between the time needed to implement the amendments with the need for consistent application of the IAS 32 offsetting requirements.

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HKFRS 7
Revised ~~October 2010~~December 2011

Effective for annual periods
beginning on or after 1 January 2007

Hong Kong Financial Reporting Standard 7

Financial Instruments: Disclosures

Improvements to HKFRSs issued in May 2010 added paragraph 32A and amended paragraphs 34 and 36-38. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011.

Paragraph 44B was also amended by *Improvements to HKFRSs* issued in May 2010 and an entity shall apply that amendment for annual periods beginning on or after 1 July 2010.

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APPENDICES

A Defined terms

B Application guidance

C Amendments to other HKFRSs

D Amendments to HKFRS 7 if the Amendments to HKAS 39 Financial Instruments: Recognition and Measurement —*The Fair Value Option* have not been applied

E Amendments resulting from other HKFRSs

F Amendments to HKFRS 7 *Disclosures – Transfers of Financial Assets*

G Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*

BASIS FOR CONCLUSIONS

Amendments resulting from other Basis for Conclusions

IMPLEMENTATION GUIDANCE

Amendments resulting from other Implementation Guidance

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

Amendments to HKFRS 9 *Financial Instruments* and HKFRS 7 *Financial Instruments: Disclosures* – Mandatory Effective Date of HKFRS 9 and Transition Disclosures (issued in December 2011)

Paragraph 44I of HKFRS 7 is amended.

44I When an entity first applies HKFRS 9, it shall disclose for each class of financial assets and financial liabilities 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 and financial liabilities 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.

Paragraphs 44S–44W of HKFRS 7 are added.

44S When an entity first applies the classification and measurement requirements of HKFRS 9, it shall present the disclosures set out in paragraphs 44T–44W of this HKFRS if it elects to, or is required to, provide these disclosures in accordance with HKFRS 9 (see paragraph 8.2.12 of HKFRS 9 (2009) and paragraph 7.2.14 of HKFRS 9 (2010)).

44T If required by paragraph 44S, at the date of initial application of HKFRS 9 an entity shall disclose the changes in the classifications of financial assets and financial liabilities, showing separately:

(a) the changes in the carrying amounts on the basis of their measurement categories in accordance with HKAS 39 (ie not resulting from a change in measurement attribute on transition to HKFRS 9); and

(b) the changes in the carrying amounts arising from a change in measurement attribute on transition to HKFRS 9.

The disclosures in this paragraph need not be made after the annual period in which HKFRS 9 is initially applied.

44U In the reporting period in which HKFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to HKFRS 9:

(a) the fair value of the financial assets or financial liabilities at the end of the reporting period;

(b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

(c) the effective interest rate determined on the date of reclassification; and

(d) the interest income or expense recognised.

If an entity treats the fair value of a financial asset or a financial liability as its amortised cost at the date of initial application (see paragraph 8.2.10 of HKFRS 9 (2009) and paragraph 7.2.10 of HKFRS 9 (2010)), the disclosures in (c) and (d) of this paragraph shall be made for each reporting period following reclassification until derecognition. Otherwise, the disclosures in this paragraph need not be made after the reporting period containing the date of initial application.

44V If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of HKFRS 9, those disclosures, and the disclosures in paragraph 28 of HKAS 8 during the reporting period containing the date of initial application, must permit reconciliation between:

(a) the measurement categories in accordance with HKAS 39 and HKFRS 9; and

(b) the line items presented in the statements of financial position.

44W If an entity presents the disclosures set out in paragraphs 44S–44U at the date of initial application of HKFRS 9, those disclosures, and the disclosures in paragraph 25 of this HKFRS at the date of initial application, must permit reconciliation between:

(a) of the measurement categories presented in accordance with HKAS 39 and HKFRS 9; and

(b) the class of financial instrument at the date of initial application.

Appendix G

Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - effective for annual periods beginning on or after 1 January 2013

The following sets out amendments required for this Standard resulting from amendments to HKFRS 7 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.

In the Introduction, paragraph IN9 is added.

IN9 *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to HKFRS 7), issued in December 2011, amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

After paragraph 13, a heading and paragraphs 13A–13F are added.

Offsetting financial assets and financial liabilities

13A The disclosures in paragraphs 13B–13E supplement the other disclosure requirements of this HKFRS and are required for all recognised financial instruments that are set off in accordance with paragraph 42 of HKAS 32. These disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with paragraph 42 of HKAS 32.

13B An entity shall disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. This includes the effect or potential effect of rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A.

13C To meet the objective in paragraph 13B, an entity shall disclose, at the end of the reporting period, the following quantitative information separately for recognised financial assets and recognised financial liabilities that are within the scope of paragraph 13A:

(a) the gross amounts of those recognised financial assets and recognised financial liabilities;

(b) the amounts that are set off in accordance with the criteria in paragraph 42 of HKAS 32 when determining the net amounts presented in the statement of financial position;

(c) the net amounts presented in the statement of financial position;

(d) the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b), including:

(i) amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of HKAS 32; and

(ii) amounts related to financial collateral (including cash collateral); and

(e) the net amount after deducting the amounts in (d) from the amounts in (c) above.

The information required by this paragraph shall be presented in a tabular format, separately for financial assets and financial liabilities, unless another format is more appropriate.

13D The total amount disclosed in accordance with paragraph 13C(d) for an instrument shall be limited to the amount in paragraph 13C(c) for that instrument.

13E An entity shall include a description in the disclosures of the rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements that are disclosed in accordance with paragraph 13C(d), including the nature of those rights.

13F If the information required by paragraphs 13B–13E is disclosed in more than one note to the financial statements, an entity shall cross-refer between those notes.

Effective date and transition

Paragraph 44R is added.

44R *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to HKFRS 7), issued in December 2011, added paragraphs IN9, 13A–13F and B40–B53. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. An entity shall provide the disclosures required by those amendments retrospectively.

After paragraph B39, headings and paragraphs B40–B53 are added.

Offsetting financial assets and financial liabilities (paragraphs 13A–13F)

Scope (paragraph 13A)

B40 The disclosures in paragraphs 13B–13E are required for all recognised financial instruments that are set off in accordance with paragraph 42 of HKAS 32. In addition, financial instruments are within the scope of the disclosure requirements in paragraphs 13B–13E if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with paragraph 42 of HKAS 32.

B41 The similar agreements referred to in paragraphs 13A and B40 include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions referred to in paragraph B40 include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements. Examples of financial instruments that are not within the scope of paragraph 13A are loans and customer deposits at the same institution (unless they are set off in the statement of financial position), and financial instruments that are subject only to a collateral agreement.

Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C)

B42 Financial instruments disclosed in accordance with paragraph 13C may be subject to different measurement requirements (for example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative will be measured at fair value). An entity shall include instruments at their recognised amounts and describe any resulting measurement differences in the related disclosures.

Disclosure of the gross amounts of recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C(a))

B43 The amounts required by paragraph 13C(a) relate to recognised financial instruments that are set off in accordance with paragraph 42 of HKAS 32. The amounts required by paragraph 13C(a) also relate to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement irrespective of whether they meet the offsetting criteria. However, the disclosures required by paragraph 13C(a) do not relate to any amounts recognised as a result of collateral agreements that do not meet the offsetting criteria in paragraph 42 of HKAS 32. Instead, such amounts are required to be disclosed in accordance with paragraph 13C(d).

Disclosure of the amounts that are set off in accordance with the criteria in paragraph 42 of HKAS 32 (paragraph 13C(b))

B44 Paragraph 13C(b) requires that entities disclose the amounts set off in accordance with paragraph 42 of HKAS 32 when determining the net amounts presented in the statement of financial position. The amounts of both the recognised financial assets and the recognised financial liabilities that are subject to set-off under the same arrangement will be disclosed in both the financial asset and financial liability disclosures. However, the amounts disclosed (in, for example, a table) are limited to the amounts that are subject to set-off. For example, an entity may have a recognised derivative asset and a recognised derivative liability that meet the offsetting criteria in paragraph 42 of HKAS 32. If the gross amount of the derivative asset is larger than the gross amount of the derivative liability, the financial asset disclosure table will include the entire amount of the derivative asset (in accordance with paragraph 13C(a)) and the entire amount of the derivative liability (in accordance with paragraph 13C(b)). However, while the financial liability disclosure table will include the entire amount of the derivative liability (in accordance with paragraph 13C(a)), it will only include the amount of the derivative asset (in accordance with paragraph 13C(b)) that is equal to the amount of the derivative liability.

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

B45 If an entity has instruments that meet the scope of these disclosures (as specified in paragraph 13A), but that do not meet the offsetting criteria in paragraph 42 of HKAS 32, the amounts required to be disclosed by paragraph 13C(c) would equal the amounts required to be disclosed by paragraph 13C(a).

B46 The amounts required to be disclosed by paragraph 13C(c) must be reconciled to the individual line item amounts presented in the statement of financial position. For example, if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information, it must reconcile the aggregated or disaggregated amounts disclosed in paragraph 13C(c) back to the individual line item amounts presented in the statement of financial position.

Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b) (paragraph 13C(d))

B47 Paragraph 13C(d) requires that entities disclose amounts that are subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b). Paragraph 13C(d)(i) refers to amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of HKAS 32 (for example, current rights of set-off that do not meet the criterion in paragraph 42(b) of HKAS 32, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties).

B48 Paragraph 13C(d)(ii) refers to amounts related to financial collateral, including cash collateral, both received and pledged. An entity shall disclose the fair value of those financial instruments that have been pledged or received as collateral. The amounts disclosed in accordance with paragraph 13C(d)(ii) should relate to the actual collateral received or pledged and not to any resulting payables or receivables recognised to return or receive back such collateral.

Limits on the amounts disclosed in paragraph 13C(d) (paragraph 13D)

B49 When disclosing amounts in accordance with paragraph 13C(d), an entity must take into account the effects of over-collateralisation by financial instrument. To do so, the entity must first deduct the amounts disclosed in accordance with paragraph 13C(d)(i) from the amount disclosed in accordance with paragraph 13C(c). The entity shall then limit the amounts disclosed in accordance with paragraph 13C(d)(ii) to the remaining amount in paragraph 13C(c) for the related financial instrument. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 13D.

Description of the rights of set-off subject to enforceable master netting arrangements and similar agreements (paragraph 13E)

B50 An entity shall describe the types of rights of set-off and similar arrangements disclosed in accordance with paragraph 13C(d), including the nature of those rights. For example, an entity shall describe its conditional rights. For instruments subject to rights of set-off that are not contingent on a future event but that do not meet the remaining criteria in paragraph 42 of HKAS 32, the entity shall describe the reason(s) why the criteria are not met. For any financial collateral received or pledged, the entity shall describe the terms of the collateral agreement (for example, when the collateral is restricted).

Disclosure by type of financial instrument or by counterparty

B51 The quantitative disclosures required by paragraph 13C(a)–(e) may be grouped by type of financial instrument or transaction (for example, derivatives, repurchase and reverse repurchase agreements or securities borrowing and securities lending agreements).

B52 Alternatively, an entity may group the quantitative disclosures required by paragraph 13C(a)–(c) by type of financial instrument, and the quantitative disclosures required by paragraph 13C(c)–(e) by counterparty. If an entity provides the required information by counterparty, the entity is not required to identify the counterparties by name. However, designation of counterparties (Counterparty A, Counterparty B, Counterparty C, etc) shall remain consistent from year to year for the years presented to maintain comparability. Qualitative disclosures shall be considered so that further information can be given about the types of counterparties. When disclosure of the amounts in paragraph 13C(c)–(e) is provided by counterparty, amounts that are individually significant in terms of total counterparty amounts shall be separately disclosed and the remaining individually insignificant counterparty amounts shall be aggregated into one line item.

Other

B53 The specific disclosures required by paragraphs 13C–13E are minimum requirements. To meet the objective in paragraph 13B an entity may need to supplement them with additional (qualitative) disclosures, depending on the terms of the enforceable master netting arrangements and related agreements, including the nature of the rights of set-off, and their effect or potential effect on the entity's financial position.

HKFRS 7 BC
Revised ~~October 2010~~December 2011

Basis for Conclusions on
Hong Kong Financial Reporting Standard 7

Financial Instruments: Disclosures

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DISCLOSURES ABOUT THE NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS **BC40-BC65**

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Credit risk **BC49-BC56**

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A Amendments to Basis for Conclusions on other IFRSs

B Amendments resulting from other Basis for Conclusions

C Amendments to Basis for Conclusions on IFRS 7 *Disclosures – Transfers of Financial Assets*

D Amendments to Basis for Conclusions on IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*

Appendix D

Amendments to Basis for Conclusions on IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - effective for annual periods beginning on or after 1 January 2013

The following sets out amendments required for this Basis for Conclusions resulting from amendments to IFRS 7 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

After paragraph BC5A, paragraph BC5B is added.

BC5B In January 2011 the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. This was in response to requests from users of financial statements and recommendations from the Financial Stability Board to achieve convergence of the boards' requirements for offsetting financial assets and financial liabilities. The different requirements result in a significant difference between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities. The proposals in the exposure draft would have replaced the requirements for offsetting financial assets and financial liabilities and would have established a common approach with the FASB. After considering the responses to the exposure draft, the boards decided to maintain their respective offsetting models. However, to meet the needs of users of financial statements, the boards agreed jointly on additional disclosures to enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) was issued in December 2011 and is effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

After paragraph BC24, headings and paragraphs BC24A–BC24AL are added.

Offsetting financial assets and financial liabilities

Background

BC24A Following requests from users of financial statements and recommendations from the Financial Stability Board, in June 2010 the IASB and the FASB added a project to their respective agendas to improve and potentially achieve convergence of the requirements for offsetting financial assets and financial liabilities. The different requirements result in a significant difference between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities.

BC24B Consequently, in January 2011 the IASB and the FASB published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. The exposure draft proposed common offsetting requirements for IFRSs and US GAAP and proposed disclosures about financial assets and financial liabilities that are subject to rights of set-off and related arrangements.

BC24C Most respondents to the exposure draft supported the boards' efforts towards achieving convergence, but their responses to the proposals varied. Many IFRS preparers agreed with the proposals, stating that the underlying principle and proposed criteria were similar to those in IAS 32 and reflect an entity's credit and liquidity exposure to such instruments. Some US GAAP preparers indicated that offsetting in the statement of financial position in accordance

with the proposed criteria provided more relevant information than the current model, except for derivatives and repurchase or reverse repurchase agreements.

BC24D There was no consensus among users of financial statements regarding if, or when, to present gross or net information in the statement of financial position. However, there was consensus that both gross and net information are useful and necessary for analysing financial statements. Users of financial statements supported achieving convergence of the IFRS and US GAAP requirements, and also supported improving disclosures so that financial statements prepared in accordance with IFRSs and US GAAP would be more comparable. Comparable information is important to investors for calculating their ratios and performing their analyses.

BC24E As a result of the feedback received on the exposure draft, the IASB and the FASB decided to maintain their respective offsetting models. However, the boards noted that requiring common disclosures of gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position, would be helpful for users of financial statements. Accordingly, the boards agreed on common disclosure requirements by amending and finalising the disclosures initially proposed in the exposure draft.

Scope (paragraph 13A)

BC24F The disclosures in the exposure draft would have applied to all recognised financial assets and recognised financial liabilities subject to a right of set-off, and/or for which an entity had either received or pledged cash or other financial instruments as collateral.

BC24G Respondents to the exposure draft noted that paragraphs 14, 15 and 36(b) of IFRS 7 already require disclosures of financial instrument collateral received and pledged and other credit enhancements. US GAAP has similar disclosure requirements. Consequently, if an entity has no financial assets or financial liabilities subject to a right of set-off (other than collateral agreements or credit enhancements), the boards concluded that there would be no incremental value in providing additional disclosure information for such instruments.

BC24H For example, some respondents were concerned that providing disclosure of conditional rights to set off loans and customer deposits at the same financial institution would be a significant operational burden. Such rights are often a result of statute, and entities do not typically manage their credit risk related to such amounts based on these rights of set-off. In addition, entities that have contractual rights to set off customer deposits with loans only in situations such as events of default see these rights as a credit enhancement and not as the primary source of credit mitigation. Respondents argued that the cost of including these amounts in the amended disclosures would outweigh the benefit because users of financial statements did not request information related to these instruments when discussing the offsetting disclosure requirements.

BC24I The boards agreed and decided to limit the scope of the disclosures to all financial instruments that meet the boards' respective offsetting models and recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement or a similar agreement. The boards specifically excluded loans and customer deposits with the same financial institution from the scope of these requirements (except in the limited cases when the respective offsetting model is satisfied). This reduced scope still responds to the needs of users of financial statements for information about amounts that have been set off in accordance with IFRSs and amounts that have been set off in accordance with US GAAP. The types of instruments that fall within the scope of these disclosures include the instruments that cause significant differences between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP.

BC24J If there is an associated collateral agreement for such instruments, an entity would disclose amounts subject to such agreements in order to provide full information about its exposure in the normal course of business, as well as in the events of default and insolvency or bankruptcy.

BC24K Other respondents requested that the scope of the proposed disclosures be further amended to exclude financial instruments for which the lender has the right to set off the related non-financial collateral in the event of default. Although non-financial collateral agreements may exist for some financial instruments, those preparers do not necessarily manage the credit risk related to such financial instruments on the basis of the non-financial collateral held.

BC24L The disclosures focus on the effects of recognised financial instruments and financial instrument set-off agreements on an entity's financial position. The boards also noted that a comprehensive reconsideration of credit risk disclosures was not within the scope of this project. They therefore restricted the scope of the disclosures to exclude financial instruments with rights of set-off only for non-financial collateral.

BC24M A few respondents were concerned that the proposals seem to be designed for financial institutions and would impose requirements on non-financial institutions. They questioned the benefit that such disclosures would provide to investors in non-financial entities.

BC24N Although the boards acknowledged that financial institutions would be among those most affected, they did not agree that the disclosures are only relevant for financial institutions. Other industries have similar financial instrument activities and use enforceable master netting arrangements and similar agreements to mitigate exposure to credit risks. Consequently, the boards concluded that the required disclosures provide useful information about an entity's arrangements, irrespective of the nature of the entity's business.

Disclosure of quantitative information for recognised financial assets and recognised financial liabilities within the scope of paragraph 13A (paragraph 13C)

BC24O The boards understood that recognised financial instruments included in the disclosure requirements in paragraph 13C of IFRS 7 may be subject to different measurement requirements. For example, a payable related to a repurchase agreement may be measured at amortised cost, while a derivative asset or derivative liability subject to the same disclosure requirements (for example, in paragraph 13C(a) of IFRS 7) will be measured at fair value. In addition, the fair value amount of any financial instrument collateral received or pledged and subject to paragraph 13C(d)(ii) of IFRS 7 should be included in the disclosures to provide users of financial statements with the best information about an entity's exposure. Consequently, a financial asset or financial liability disclosure table may include financial instruments measured at different amounts. To provide users of financial statements with the information they need to evaluate the amounts disclosed in accordance with paragraph 13C of IFRS 7, the boards decided that an entity should describe any resulting measurement differences in the related disclosures.

Disclosure of the net amounts presented in the statement of financial position (paragraph 13C(c))

BC24P When providing feedback on the proposals in the exposure draft, users of financial statements emphasised that information in the notes should be clearly reconciled back to the amounts in the statement of financial position. The boards therefore decided that if an entity determines that the aggregation or disaggregation of individual financial statement line item amounts provides more relevant information when disclosing amounts in accordance with paragraph 13C of IFRS 7, the entity must still reconcile the amounts disclosed in paragraph 13C(c) of IFRS 7 back to the individual line item amounts in the statement of financial position.

Disclosure of the amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in paragraph 13C(b) (paragraph 13C(d))

BC24Q Paragraph 13C(d)(i) of IFRS 7 requires disclosure of amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria in paragraph 42 of IAS 32. This may include current rights of set-off that do not meet the criterion in paragraph 42(b) of IAS 32, or conditional rights of set-off that are enforceable and exercisable only in the event of default, or only in the event of insolvency or bankruptcy of any of the counterparties. Although such rights do not qualify for set-off in accordance with IAS 32, users of financial statements are interested in arrangements that an entity has entered into that mitigate the entity's exposure to such financial instruments in the normal course of business and/or in the events of default and insolvency or bankruptcy.

BC24R Paragraph 13C(d)(ii) of IFRS 7 requires disclosure of amounts of cash and financial instrument collateral (whether recognised or unrecognised) that do not meet the criteria for offsetting in the statement of financial position but that relate to financial instruments within the scope of these disclosure requirements. Depending on the terms of the collateral arrangement, collateral will often reduce an entity's exposure in the events of default and insolvency or bankruptcy of a counterparty to the contract. Collateral received or pledged against financial assets and financial liabilities may often be liquidated immediately upon an event of default. Consequently, the boards concluded that the amounts of collateral that are not set off in the statement of financial position but that are associated with other netting arrangements should be included in the amounts disclosed as required by paragraph 13C(d)(ii) of IFRS 7.

Limits on the amounts disclosed in paragraph 13C(d) (paragraph 13D)

BC24S The boards concluded that an aggregate disclosure of the amount of cash collateral and/or the fair value of collateral in the form of other financial instruments would be misleading when some financial assets and financial liabilities are over-collateralised and others have insufficient collateral. To prevent an entity from inappropriately obscuring under-collateralised financial instruments with others that are over-collateralised, paragraph 13D of IFRS 7 restricts the amounts of cash and/or financial instrument collateral to be disclosed in respect of a recognised financial instrument to more accurately reflect an entity's exposure. However, if rights to collateral can be enforced across financial instruments, such rights can be included in the disclosure provided in accordance with paragraph 13D of IFRS 7. At no point in time should under-collateralisation be obscured.

Disclosure by type of financial instrument or by counterparty

BC24T The exposure draft proposed disclosures by class of financial instrument. An entity would have been required to group financial assets and financial liabilities separately into classes that were appropriate to the nature of the information disclosed, taking into account the characteristics of those financial instruments and the applicable rights of set-off. Many preparers were concerned that the cost of disclosing amounts related to rights of set-off in the events of default and insolvency or bankruptcy by class of financial instrument would outweigh the benefit. They also indicated that they often manage credit exposure by counterparty and not necessarily by class of financial instrument.

BC24U Many users of financial statements indicated that disclosure of recognised amounts subject to enforceable master netting arrangements and similar agreements (including financial collateral) that were not set off in the statement of financial position would be useful irrespective of whether the amounts are disclosed by counterparty or by type or by class of financial instrument, as long as they can reconcile these amounts back to the statement of financial position. In evaluating whether the disclosures should be provided by type or by class of financial instrument or by counterparty, the boards noted that the objective of these disclosures (paragraph 13B of IFRS 7) is that an entity should disclose information to enable

users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

BC24V The boards decided to reduce the burden on preparers by requiring disclosure by type of financial instrument rather than by class. Disclosure by type of financial instrument may (or may not) differ from the class of financial instrument used for other disclosures in IFRS 7, but is appropriate in circumstances where a difference would better achieve the objective of the disclosures required by these amendments. The boards also decided to provide flexibility as to whether the information required by paragraph 13C(c)–(e) of IFRS 7 is presented by type of financial instrument or by counterparty. This would allow preparers to present the disclosures in the same way that they manage their credit exposure.

BC24W The Board also noted that paragraph 31 of IFRS 7 requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. In addition, paragraph 34 of IFRS 7 requires the disclosure of concentrations of risk for each type of risk. Consequently, the Board noted that, irrespective of whether the disclosures were required to be provided by type or by class of financial instrument or by counterparty, entities are already required to disclose information about risks and how they are managed, including information about concentrations of credit risk.

Other considerations

Reconciliation between IFRSs and US GAAP

BC24X Some users of financial statements asked for information to help them reconcile between the amounts set off in accordance with IFRSs and the amounts set off in accordance with US GAAP. The boards recognised that the amounts disclosed in accordance with paragraph 13C(b), (c) and (d) of IFRS 7 will probably be different for financial statements prepared in accordance with IFRSs and those prepared in accordance with US GAAP. However, the amounts disclosed in accordance with paragraph 13C(a) and (e) of IFRS 7 are generally not affected by the offsetting criteria applied in the statement of financial position. These amounts are important for users of financial statements to understand the effects of netting arrangements on an entity's financial position in the normal course of business and in the events of default and insolvency or bankruptcy.

BC24Y Consequently, while the amended disclosure requirements do not directly reconcile the IFRS and US GAAP amounts, they provide both gross and net information on a comparable basis. The boards considered that requiring a full reconciliation between IFRSs and US GAAP was unnecessary, particularly given the relative costs and benefits. Such reconciliation would have required preparers to apply two sets of accounting requirements and to track any changes to the related accounting standards and to contracts in the related jurisdictions.

Tabular information

BC24Z The disclosures require amounts to be presented in a tabular format (ie a table) unless another format is more appropriate. The boards believe that a tabular format best conveys an overall understanding of the effect of any rights of set-off and other related arrangements on an entity's financial position and improves the transparency of such information.

Transition and effective date

BC24AA The boards identified two transition approaches in the exposure draft—prospective and retrospective.

BC24AB Prospective transition is generally appropriate only in situations where it is not practicable to apply a standard to all prior periods. The boards did not believe that this was the case with the proposed disclosure requirements. Retrospective transition would require an entity to apply the new requirements to all periods presented. This would maximise consistency of financial

information between periods. Retrospective transition would enable analysis and understanding of comparative accounting information among entities. In addition, the scope of the disclosures was reduced and the disclosures amended to require less detailed information than originally proposed, which would make them less burdensome for preparers to apply retrospectively.

BC24AC The exposure draft did not propose an effective date, but instead asked respondents for information about the time and effort that would be involved in implementing the proposed requirements. The boards indicated that they would use such feedback, as well as the responses in their *Request for Views on Effective Dates and Transition Methods*, and the timing of other planned accounting and reporting standards, to determine an appropriate effective date for the proposals in the exposure draft.

BC24AD Some respondents suggested that the offsetting proposals should have the same effective date as the other components of the IASB's project to replace IAS 39 with IFRS 9 *Financial Instruments*. If an earlier date was required, it was suggested that application should be restricted only to the accounting period being presented, rather than providing comparative information, because of the potential burden of applying the proposed disclosure requirements.

BC24AE At the time the amended disclosure requirements were issued (December 2011), IFRS 9 was not yet mandatorily effective. However, the Board did not believe that the IFRS 9 project would change the offsetting disclosures. Aligning the effective date of these amendments with the effective date of the financial instruments project could result in postponing the effective date of the common disclosure requirements, which would mean a delay in providing users of financial statements the information that they need. For users of financial statements to benefit from the increased comparability, and because the offsetting and IFRS 9 projects are independent of one another, the boards decided that common disclosures should be effective as early as possible.

BC24AF In addition, the boards did not think that a long transition period was needed, because the amended disclosures had a reduced scope and less detailed information than originally proposed in the exposure draft and were related to the presentation of instruments that entities have already recognised and measured. The boards therefore decided that the effective date for the amended disclosures should be for annual periods beginning on or after 1 January 2013, and interim periods within those annual periods.

BC24AG As described in greater detail in other sections of this Basis for Conclusions, the disclosures required by paragraphs 13B–13E of IFRS 7 are a result of requests from users of financial statements for information to enable them to compare statements of financial position prepared in accordance with IFRSs with statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities.

BC24AH The information required in paragraphs 13B–13E of IFRS 7 will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position for financial statements presented in accordance with IFRSs and those presented in accordance with US GAAP.

BC24AI The Board noted that paragraph 10(f) of IAS 1 *Presentation of Financial Statements* requires an entity to provide 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. In the case of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), because the change relates only to disclosures and there is no associated change in accounting policy, or a resulting restatement or reclassification, it was noted that paragraph 10(f) of IAS 1 does not apply for these amendments to IFRS 7.

Cost-benefit considerations

BC24AJ Before issuing an IFRS or an amendment to an IFRS, the Board seeks to ensure that it will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. As described in greater detail in other sections of this Basis for Conclusions on *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), the Board considered that there is significant benefit to market participants in providing these disclosures. The disclosures address a significant difference between the amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP, particularly for entities that have large amounts of derivative activities. The disclosures therefore make the amounts presented in accordance with both sets of standards more comparable.

BC24AK During redeliberations, the Board considered feedback related to the costs of providing the disclosures proposed in the exposure draft. As described in greater detail in other sections of this Basis for Conclusions, the Board decided to limit the scope of the disclosures because these changes would reduce the cost to preparers while still providing the information that users of financial statements had requested.

BC24AL On the basis of the considerations described in the Basis for Conclusions on these amendments, and summarised in paragraphs BC24AJ and BC24AK, the Board concluded that the benefits of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) outweigh the costs to preparers of applying these amendments.

Guidance on Implementing
Hong Kong Financial Reporting Standard 7

Financial Instruments: Disclosures

Hong Kong Institute of
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Appendix D

Amendments to guidance on implementing IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - effective for annual periods beginning on or after 1 January 2013

The following sets out amendments required for this Implementation Guidance resulting from amendments to IFRS 7 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.

After paragraph IG40C, a heading and paragraph IG40D are added.

Disclosures (paragraphs 13A–13F and B40–B53)

IG40D The following examples illustrate ways in which an entity might provide the quantitative disclosures required by paragraph 13C. However, these illustrations do not address all possible ways of applying the disclosure requirements as set out in paragraphs 13B–13E.

Background

An entity has entered into transactions subject to an enforceable master netting arrangement or similar agreement with the following counterparties. The entity has the following recognised financial assets and financial liabilities resulting from those transactions that meet the scope of the disclosure requirements in paragraph 13A.

Counterparty A:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty A that meet the offsetting criteria in paragraph 42 of IAS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative asset of CU20 million in the entity's statement of financial position. Cash collateral has also been received from Counterparty A for a portion of the net derivative asset (CU10 million). The cash collateral of CU10 million does not meet the offsetting criteria in paragraph 42 of IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

Counterparty B:

The entity has a derivative asset (fair value of CU100 million) and a derivative liability (fair value of CU80 million) with Counterparty B that do not meet the offsetting criteria in paragraph 42 of IAS 32, but which the entity has the right to set off in the case of default and insolvency or bankruptcy. Consequently, the gross amount of the derivative asset (CU100 million) and the gross amount of the derivative liability (CU80 million) are presented separately in the entity's statement of financial position. Cash collateral has also been received from Counterparty B for the net amount of the derivative asset and derivative liability (CU20 million). The cash collateral of CU20 million does not meet the offsetting criteria in paragraph 42 of IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

continued...

...continued

Counterparty C:

The entity has entered into a sale and repurchase agreement with Counterparty C that is accounted for as a collateralised borrowing. The carrying amount of the financial assets (bonds) used as collateral and posted by the entity for the transaction is CU79 million and their fair value is CU85 million. The carrying amount of the collateralized borrowing (repo payable) is CU80 million.

The entity has also entered into a reverse sale and repurchase agreement with Counterparty C that is accounted for as a collateralised lending. The fair value of the financial assets (bonds) received as collateral (and not recognised in the entity's statement of financial position) is CU105 million. The carrying amount of the collateralised lending (reverse repo receivable) is CU90 million.

The transactions are subject to a global master repurchase agreement with a right of set-off only in default and insolvency or bankruptcy and therefore do not meet the offsetting criteria in paragraph 42 of IAS 32. Consequently, the related repo payable and repo receivable are presented separately in the entity's statement of financial position.

Illustrating the application of paragraph 13C(a)–(e) by type of financial instrument

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	**Gross amounts of recognised financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Description						
Derivatives	200	(80)	120	(80)	(30)	10
Reverse repurchase, securities borrowing and similar agreements	90	-	90	(90)	-	-
Other financial instruments	-	-	-	-	-	-
Total	290	(80)	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)	(d)		(e)=(c)-(d)
				Related amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	**Gross amounts of recognised financial assets set off in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral pledged**	**Net amount**
Description						
Derivatives	160	(80)	80	(80)	-	-
Repurchase, securities lending and similar agreements	80	-	80	(80)	-	-
Other financial instruments	-	-	-	-	-	-
Total	240	(80)	160	(160)	-	-

Illustrating the application of paragraph 13C(a)–(c) by type of financial instrument and paragraph 13C(c)–(e) by counterparty

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognised financial assets	**Gross amounts of recognised financial liabilities set off in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**
Description			
Derivatives	200	(80)	120
Reverse repurchase, securities borrowing and similar agreements	90	-	90
Other financial instruments	-	-	-
Total	290	(80)	210

Net financial assets subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at 31 December 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial assets presented in the statement of financial position	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral received**	**Net amount**
Counterparty A	20	-	(10)	10
Counterparty B	100	(80)	(20)	-
Counterparty C	90	(90)	-	-
Other	-	-	-	-
Total	210	(170)	(30)	10

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

CU million

As at 31 December 20XX	(a)	(b)	(c)=(a)-(b)
	Gross amounts of recognised financial liabilities	**Gross amounts of recognised financial assets set off in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**
Description			
Derivatives	160	(80)	80
Repurchase, securities lending and similar agreements	80	-	80
Other financial instruments	-	-	-
Total	240	(80)	160

Net financial liabilities subject to enforceable master netting arrangements and similar agreements, by counterparty

CU million

As at 31 December 20XX	(c)	(d)		(e)=(c)-(d)
		Related amounts not set off in the statement of financial position		
	Net amounts of financial liabilities presented in the statement of financial position	**(d)(i), (d)(ii) Financial instruments**	**(d)(ii) Cash collateral pledged**	**Net amount**
Counterparty A	-	-	-	-
Counterparty B	80	(80)	-	-
Counterparty C	80	(80)	-	-
Other	-	-	-	-
Total	160	(160)	-	-

HKFRS 9
Revised December ~~2010~~2011

Effective for annual periods
beginning on or after 1 January 201~~3~~5

Hong Kong Financial Reporting Standard 9

Financial Instruments

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Hong Kong Financial Reporting Standard 9 *Financial Instruments* (HKFRS 9) is set out in paragraphs 1.1–7.3.2 and Appendices A–C and E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the HKFRS. HKFRS 9 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Appendix E

Amendments to HKFRS 9 *Financial Instruments* and HKFRS 7 *Financial Instruments: Disclosures* – Mandatory Effective Date of HKFRS 9 and Transition Disclosures (issued in December 2011)

In the Introduction, paragraph IN11 of HKFRS 9 (2010) [IN16 of HKFRS 9 (2009)] is added.

Effective date and transition

IN11 *Mandatory Effective Date of HKFRS 9 and Transition Disclosures* (Amendments to HKFRS 9 (2009), HKFRS 9 (2010) and HKFRS 7), issued in December 2011, amended the effective date of HKFRS 9 (2009) and HKFRS 9 (2010) so that HKFRS 9 is required to be applied for annual periods beginning on or after 1 January 2015. Early application is permitted. The amendments also modified the relief from restating prior periods. The HKICPA has published amendments to HKFRS 7 to require additional disclosures on transition from HKAS 39 to HKFRS 9. Entities that initially apply HKFRS 9 in periods:

(a) beginning before 1 January 2012 need not restate prior periods and are not required to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 must elect either to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of HKFRS 7. The entity need not restate prior periods.

Paragraphs 8.1.1 and 8.2.12 of HKFRS 9 (2009) are amended (deleted text is struck through and new text is underlined).

8.1 Effective date

8.1.1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 201~~3~~5. Earlier application is permitted. If an entity applies this HKFRS in its financial statements for a period beginning before 1 January 201~~3~~5, it shall disclose that fact and at the same time apply the amendments in Appendix C.

8.2 Transition

8.2.12 Despite the requirement in paragraph 8.2.1, an entity that adopts this HKFRS for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of HKFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

Paragraphs 7.1.1, 7.2.10, 7.2.14 and 7.3.2 of HKFRS 9 (2010) are amended (deleted text is struck through and new text is underlined).

7.1 Effective date

7.1.1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 201~~3~~5. Earlier application is permitted. However, if an entity elects to apply this HKFRS early and has not already applied HKFRS 9 issued in 2009, it must apply all of the requirements in this HKFRS at the same time (but see also paragraph 7.3.2). If an entity applies this HKFRS in its financial statements for a period beginning before 1 January 201~~3~~5, it shall disclose that fact and at the same time apply the amendments in Appendix C.

7.2 Transition

7.2.10 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 entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period presented as its amortised cost if the entity restates prior periods. ~~In those circumstances~~ 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 or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this HKFRS.

7.2.14 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this HKFRS for reporting periods:

(a) beginning before 1 January 2012 need not restate prior periods~~.~~ and is not required to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7;

(b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of HKFRS 7 or to restate prior periods; and

(c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of HKFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.

7.3 Withdrawal of HK(IFRIC)-Int 9 and HKFRS 9 (2009)

7.3.2 This HKFRS supersedes HKFRS 9 issued in 2009. However, for annual periods beginning before 1 January 201~~3~~5, an entity may elect to apply HKFRS 9 issued in 2009 instead of applying this HKFRS.

HKFRS 9 BC
Revised ~~November 2010~~December 2011

Effective for annual periods
beginning on or after 1 January 201~~3~~5

Basis for Conclusions on
Hong Kong Financial Reporting Standard 9

Financial Instruments

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APPENDIXCES

Amendments to the Basis for Conclusions on other IFRSs

Amendments to Basis for Conclusions on IFRS 9 *Financial Instruments* – Mandatory Effective Date of IFRS 9 and Transition Disclosures

DISSENTING OPINIONS

Appendix

Amendments to Basis for Conclusions on IFRS 9 *Financial Instruments* – Mandatory Effective Date of IFRS 9 and Transition Disclosures

After paragraph BC7.9 of IFRS 9 (2010) [paragraph BC95 of IFRS 9 (2009)], the heading and paragraphs BC7.9A–BC7.9E [BC95A–BC95E] are added.

Mandatory Effective Date of IFRS 9—November 2011

BC7.9A IFRS 9 (2009) and IFRS 9 (2010) were issued with a mandatory effective date of 1 January 2013. At the time, the Board noted that it would consider delaying the effective date of IFRS 9, if:

(a) the impairment phase of the project to replace IAS 39 made such a delay necessary; or

(b) the new standard on insurance contracts had a mandatory effective date later than 2013, to avoid an insurer having to face two rounds of changes in a short period.

BC7.9B In July 2011 the Board noted that in order to enable an appropriate period for implementation before the mandatory effective date of the new requirements, the impairment and hedge accounting phases of the project to replace IAS 39 would not be mandatory for periods beginning before 1 January 2013. In addition, any new requirements for the accounting for insurance contracts would not have a mandatory effective date as early as 1 January 2013.

BC7.9C As a result of these considerations, in August 2011 the Board issued the exposure draft ED/2011/3 *Mandatory Effective Date of IFRS 9.* In the exposure draft, the Board proposed that the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010) should be deferred to annual periods beginning on or after 1 January 2015. The Board noted that it did not want to discourage entities from applying IFRS 9 and stressed that early application would still be permitted.

BC7.9D In its redeliberations on the exposure draft in November 2011, the Board decided to confirm its proposal and change the effective date of IFRS 9 (2009) and IFRS 9 (2010) so that IFRS 9 would be required to be applied for annual periods beginning on or after 1 January 2015. In doing so, the Board noted that there are compelling reasons for all project phases to be implemented at the same time and that, based on current circumstances, it is still appropriate to pursue an approach of requiring the same effective date for all phases of this project.

BC7.9E However, the Board noted that it is difficult to assess the amount of lead time that will be necessary to implement all phases of the project because the entire project to replace IAS 39 is not yet complete. Ultimately this may affect the Board’s conclusion on the appropriateness of requiring the same mandatory effective date for all phases of this project.

After paragraph BC7.34 of IFRS 9 (2010) [paragraph BC117 of IFRS 9 (2009)], the heading and paragraphs BC7.34A–BC7.34M [BC117A–BC117M] are added.

Disclosures on Transition from IAS 39 to IFRS 9—November 2011

BC7.34A When IFRS 9 (2009) and IFRS 9 (2010) were issued, they provided limited relief from restating comparative financial statements. Entities that adopted the IFRS for reporting periods beginning before 1 January 2012 were not required to restate prior periods. At the time, the Board's view was that waiving the requirement to restate comparative financial statements struck 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.

BC7.34B In August 2011 the Board issued ED/2011/3 *Mandatory Effective Date of IFRS 9*. At the time, the Board noted that these practicability considerations would be less relevant for entities that adopted outside a short time frame, and therefore proposed that restated comparative financial statements would continue to be required if an entity adopts IFRS 9 for reporting periods beginning on or after 1 January 2012.

BC7.34C Some respondents to the exposure draft believed that comparative financial statements should be required to be restated for the following reasons:

(a) The presentation of restated comparative financial statements is consistent with IAS 8.

(b) A delay in the mandatory effective date of IFRS 9 would allow a sufficient time frame for entities to prepare restated comparative financial statements.

(c) IAS 39 and IFRS 9 are sufficiently different from each other, so restatement will be necessary to provide meaningful information to users of financial statements.

BC7.34D In contrast, those who did not believe that comparative financial statements should be required to be restated argued that:

(a) Comparative relief was granted for IAS 32 and IAS 39 upon first-time adoption of IFRSs for European reporting entities.

(b) Comparability is impaired by the transition requirements, which are complex and inconsistent across various phases of the project, reducing the usefulness of the comparative information (for example, the classification and measurement phase requires retrospective application with some transition reliefs, whereas the hedge accounting phase requires prospective application).

(c) Time pressures similar to those existing when IFRS 9 (2009) and IFRS 9 (2010) were initially issued will nonetheless exist when the last phase of the project to replace IAS 39 is issued.

BC7.34E Respondents to the exposure draft ED/2011/3 also raised specific implementation issues that increased the cost of applying the classification and measurement requirements of IFRS 9 in periods prior to their date of initial application. These reasons were the interaction between the date of initial application and:

(a) the fact that IFRS 9 must not be applied to items that have already been derecognised as of the date of initial application;

(b) the initial business model determination; and

(c) the fair value option and fair value through other comprehensive income elections at the date of initial application.

BC7.34F In providing views on their preferred transition approach for the project to replace IAS 39, investors consistently emphasised a need for comparable period-to-period information—that is, information that enabled them to understand the effect of the transition from IAS 39 to IFRS 9. Investors, irrespective of their preferred approach, noted that the mix of transition requirements between phases, and the modifications to retrospective application in the classification and measurement phase, would diminish the usefulness of comparative financial statements. Many also noted that the partial restatement of comparative financial statements could create either confusion or a misleading impression of period-to-period comparability.

BC7.34G Some investor respondents, despite sharing the views in the preceding paragraph, favoured the presentation of comparative financial statements with full retrospective application of all project phases (ie including hedge accounting) as the preferred way of achieving comparability. Some of the respondents who favoured full retrospective application agreed that the modifications to retrospective application would diminish the usefulness of comparative financial statements but believed that the effect of the modifications would not be significant.

BC7.34H Due to the variation in transition requirements of the phases in the project to replace IAS 39, other investors did not favour the presentation of restated comparative financial statements. Their primary concern was having information that enabled them to understand the effect of the transition from IAS 39 to IFRS 9. They did not believe that restating comparative financial statements on the basis of the transition requirements across the phases of IFRS 9 would necessarily provide that information.

BC7.34I In addition to feedback on their preferred approach to understanding the effect of the transition to IFRS 9, investors also provided information on what they focus on when analysing financial instruments in financial statements. They noted that the statement of profit or loss and other comprehensive income (and restatement of it in comparative periods) is less important to their analysis than the statement of financial position, aside from situations where it allows for a link to the statement of financial position (for example net interest income). Similarly, where restatement means primarily the presentation of historical fair value changes, comparative information is less useful as extrapolation is not possible in the same way as it is for amortised cost information.

BC7.34J Investors also provided feedback on those disclosures that would be useful in understanding the transition from IAS 39 to IFRS 9. They cited examples that they found useful on the transition from other GAAPs to IFRSs in Europe in 2005. It was also noted that disclosures similar to those required by IFRS 7 *Financial Instruments: Disclosures* for transfers of financial assets between classification categories would be useful—ie disclosures about reclassifications are also useful when the reclassifications result from applying a new accounting standard.

BC7.34K In the light of this feedback received, the Board considered whether modified transition disclosures could provide the information necessary for investors to understand the effect of the transition from IAS 39 to IFRS 9, while reducing the burden on preparers that would result from the restatement of comparative financial statements. The Board also considered whether this approach would address concerns about the diminished usefulness and period-to-period comparability of comparative financial statements due to the different transition requirements of the phases of the project to replace IAS 39. The Board believes that modified disclosures can achieve these objectives and decided to require modified transition disclosures instead of the restatement of comparative financial statements.

BC7.34L The Board noted that much of the information requested by investors was already required by IAS 8 and IFRS 7 on transition from IAS 39 to IFRS 9. The Board also noted that it was not modifying the requirements of IAS 8. The Board, however, decided that the reclassification disclosures in IFRS 7 (as amended by IFRS 9 (2009)) should be required on transition from IAS 39 to IFRS 9, irrespective of whether they would normally be required due to a change in business model. The Board also specified that the reclassification disclosures, and other disclosures required when initially applying IFRS 9, should allow reconciliations between the measurement categories in accordance with IAS 39 and IFRS 9 and individual line items in the financial statements or classes of financial instruments. This would provide useful information that would enable users to understand the transition from IAS 39 to IFRS 9.

BC7.34M The Board also considered whether the transition disclosures should be required if the entity presents restated comparative financial statements, or only if they are not provided. The Board noted that the disclosures provide useful information to investors on transition from IAS 39 to IFRS 9, irrespective of whether comparative financial statements are restated. The Board also believed that the burden of these comparative transition disclosures for preparers would not be unreasonable because it was based largely on existing disclosure requirements and should require disclosure of information available as a result of preparing for transition. Consequently, the Board decided to require these disclosures even if restated comparative financial statements are provided. However, the Board did not want to unduly burden those who were in the process of applying IFRS 9 early by requiring disclosures that the entity was not previously required to provide. Therefore, for entities that initially apply the classification and measurement requirements from 1 January 2012 until 31 December 2012, the Board decided to permit, but not require, the presentation of the additional disclosures. If an entity elects to provide these disclosures when initially applying IFRS 9 between 1 January 2012 and 31 December 2012, it would not be required to restate comparative periods.

After paragraph DO22 of IFRS 9 (2009) and IFRS 9 (2010), the heading and paragraphs DO23–DO28 are added.

Dissent of Patricia McConnell from *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7)

DO23 Ms McConnell concurs with the Board's decision to defer the mandatory effective date of IFRS 9 (2009) and IFRS 9 (2010), but not with its decision to set a mandatory effective date of 1 January 2015. She agrees with the Board that there are compelling reasons for all project phases to be implemented at the same time and, therefore, that the mandatory application of all phases of the project to replace IAS 39 should occur concurrently. However, Ms McConnell does not believe that a mandatory effective date for IFRS 9 (2009) and IFRS 9 (2010) should be established until there is more clarity on the requirements and completion dates of the remaining phases of the project to replace IAS 39, including possible improvements to existing IFRS 9.

DO24 Ms McConnell commends the Board for requiring modified transition disclosures and acknowledges that the modified disclosures will provide useful information that will enable users of financial statements to better understand the transition from IAS 39 to IFRS 9, just as they would provide useful information when financial assets are reclassified in accordance with IFRS 9.

DO25 Although Ms McConnell believes that the modified disclosures are useful, she does not believe that they are an adequate substitute for restated comparative financial statements. Ms McConnell believes that comparative statements are vitally important to users of financial statements. To the extent that the accounting policies applied in comparative financial statements are comparable period-to-period, comparative financial statements enable users to more fully understand the effect of the accounting change on a company's statements of comprehensive income, financial position and cash flows.

DO26 Ms McConnell agrees with the Board that the date of initial application should be defined as a fixed date. In the absence of a fixed date, entities would have to go back to the initial recognition of each individual instrument for classification and measurement. This would be very burdensome, if not impossible. Moreover, particularly because reclassifications in accordance with IFRS 9 only occur (and are required) upon a change in business model for the related group of instruments, reclassifications should be very rare. Consequently, the expected benefit of not naming a fixed date of initial application would not exceed the costs.

DO27 However, Ms McConnell disagrees with defining the date of initial application as the date that an entity first applies this IFRS. She believes that the date of initial application should be defined as the beginning of the earliest period presented in accordance with IFRS 9. This date of initial application would enable entities to compile information in accordance with IFRS 9 while still preparing their external financial reports in accordance with IAS 39. Ms McConnell does not consider that there is a significant risk that entities would use hindsight when applying IFRS 9 to comparative periods prior to those financial statements being reported publicly in accordance with IFRS 9. She also notes that, although it would be costly for entities to prepare financial reporting information in accordance with an extra set of requirements during the comparative period (or periods), this would address concerns on the part of preparers that it is overly burdensome for them to compile information in accordance with IFRS 9 before the date of initial application has passed.

DO28 Ms McConnell acknowledges that defining the date of initial application as the beginning of the earliest date presented would delay the release of financial statements prepared in accordance with IFRS 9 for at least one year, or longer, if the date of initial application were set as she believes it should be. Delays would also result if the mandatory effective date of IFRS 9 was set so that entities could prepare more than one comparative period under IFRS 9 on the basis of requirements in many jurisdictions. Ms McConnell has also considered that it is costly for entities to prepare financial reporting information in accordance with an extra set of requirements during the comparative period (or periods). However, Ms McConnell believes that the benefits to users of financial statements of restated comparative financial statements justify the costs.

HKFRS 9 IG
Issued ~~November 2010~~December 2011

Effective for annual periods
beginning on or after 1 January 201~~3~~5

Implementation Guidance
Hong Kong Financial Reporting Standard 9

Financial Instruments

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

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Amendments to the Implementation Guidance of IFRS 9 *Financial Instruments (2010)* Mandatory Effective Date of IFRS 9 and Transition Disclosures (issued in December 2011)

After paragraph IE5 of IFRS 9 (2010), the heading and paragraph IE6 are added.

Disclosures on Transition from IAS 39 to IFRS 9

IE6 The following illustration is an example of one possible way to meet the quantitative disclosure requirements in paragraphs 44S–44W of IFRS 7 at the date of initial application of IFRS 9. However, this illustration does not address all possible ways of applying the disclosure requirements of this IFRS.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv)=(i)+(ii)+(iii)**	**(v)=(iii)**
	IAS 39 carrying amount 31 December 2014 (1)	**Reclassifications**	**Remeasurements**	**IFRS 9 carrying amount 1 January 2015**	**Retained earnings effect on 1 January 2015 (2)**
Measurement category:					
Fair value through profit or loss					
Additions:					
From available for sale (IAS 39)		(a)			(c)
From amortised cost (IAS 39) – required reclassification		(b)			
From amortised cost (IAS 39) – fair value option elected at 1 January 2015					
Subtractions:					
To amortised cost (IFRS9)					
Total change to fair value through profit or loss					
Fair value through other comprehensive income					
Additions:					
From fair value through profit or loss (fair value option under IAS 39) – fair value through other comprehensive income elected at 1 January 2015					
From cost (IAS 39)					
Subtractions:					
Available for sale (IAS 39) to fair value through profit or loss (IFRS 9)					(d)
Available for sale (IAS 39) to amortised cost (IFRS 9)					(e)
Total change to fair value through other comprehensive income					

continued…

…continued

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015

Financial assets	**(i)**	**(ii)**	**(iii)**	**(iv)=(i)+(ii)+(iii)**	**(v)=(iii)**
	IAS 39 carrying amount 31 December 2014 (1)	**Reclassifications**	**Remeasurements**	**IFRS 9 carrying amount 1 January 2015**	**Retained earnings effect on 1 January 2015 (2)**
Amortised cost					
Additions:					
From available for sale (IAS 39)					(f)
From fair value through profit or loss (IAS 39)-required reclassification					
From fair value through profit or loss (IAS 39)-fair value option revoked at 1 January 2015					
Subtractions:					
To fair value through profit or loss (IFRS 9)-required reclassification					
To fair value through profit or loss (IFRS 9)-fair value option elected at 1 January 2015					
Total change to amortised cost					
Total financial asset balances, reclassifications and remeasurements at 1 January 2015	**(i)**	**Total (ii)=0**	**(iii)**	**(iv)=(i)+(ii)+(iii)**	

(1) Includes the effect of reclassifying hybrid instruments that were bifurcated under IAS 39 with host contract components of (a), which had associated embedded derivatives with a fair value of X at 31 December 2014, and (b), which had associated embedded derivatives with a fair value of Y at 31 December 2014.

(2) Includes (c), (d), (e) and (f), which are amounts reclassified from other comprehensive income to retained earnings at the date of initial application.

continued…

…continued

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2015

Financial liabilities	**(i)**	**(ii)**	**(iii)**	**(iv)=(i)+(ii)+(iii)**	**(v)=(iii)**
	IAS 39 carrying amount 31 December 2014 (1)	**Reclassifications**	**Remeasurements**	**IFRS 9 carrying amount**	**Retained earnings effect on 1 January 2015 (2)**
Fair value through profit or loss					
Additions:					
From amortised cost (IAS 39)-fair value option elected at 1 January 2015					
Subtractions:					
To amortised cost (IFRS 9)-fair value option revoked at 1 January 2015					
Total change to fair value through profit or loss					
Amortised cost					
Additions:					
From fair value through profit or loss (IAS 39)-required reclassification					
From fair value through profit or loss (IAS 39)-fair value option revoked at 1 January 2015					
Subtractions:					
To fair value through profit or loss (IFRS 9)-fair value option elected at 1 January 2015					
Total change to amortised cost					
Total financial liability balances, reclassifications and remeasurements at 1 January 2015	**(i)**	**Total (ii)=0**	**(iii)**	**(iv)=(i)+(ii)+(iii)**	
Total change to retained earnings at 1 January 2015					**(v)=(iii)**

Note: This illustration assumes that the entity's date of initial application for IFRS 9 (2009) and IFRS 9 (2010) is 1 January 2015.