

# Financial Reporting News

**Quarterly update on financial reporting standards and developments**  
**Issue 4 - February 2009**



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**Welcome to Financial Reporting News – a quarterly update from Grant Thornton. Financial Reporting News offers a summary of the more significant developments in Hong Kong Financial Reporting Standards (HKFRSs) along with insights into topical issues and comments and views from Grant Thornton.**



With effect from 1 January 2005, HKFRSs were fully converged with International Financial Reporting Standards (IFRSs). The Hong Kong Institute of Certified Public Accountants (HKICPA) has committed to maintain convergence with IFRSs by aligning the timing of issuing Exposure Drafts, Standards and Interpretations in Hong Kong as closely as possible with the timing of issuing Exposure Drafts, Standards and Interpretations by the International Accounting Standards Board (IASB) and by converging the content of each HKFRS with the equivalent IFRS. Against this background, included in this newsletter is a section "IFRS and other news", which summarises the more significant IFRS developments following which the HKICPA is expected to issue the HKFRSs equivalents. Accordingly, you would have more time to plan your financial reporting ahead of HKICPA's move.

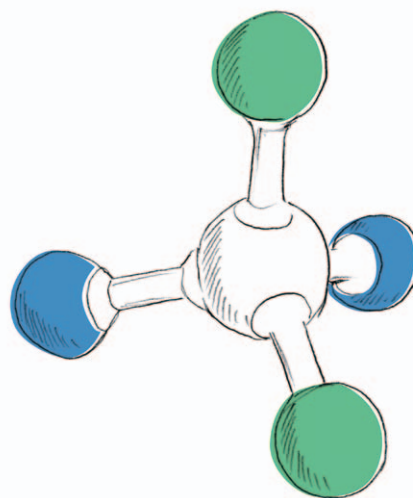
Our February edition of the year concentrates on the effects of the credit crisis on financial reporting – both for entities applying HKFRSs and the standard setters. Included in the HKFRSs news section are some examples of HKFRS-related accounting issues that may become more significant in the current economic environment and which may affect your entity. In the IFRSs and other news section we then go on to look at the various elements of the IASB's response to the credit crisis. In this section, there are also reportings of the more general changes and developments that have taken place in the last quarter. We end with a summary of the effective dates of new or revised HKFRSs.

# New structure makes HKFRS 1 easier to read

The IASB has published a revised version of IFRS 1 First-time Adoption of International Financial Reporting Standards. The HKICPA followed the IASB's action and issued HKFRS 1(Revised) in December 2008. The revised version has an improved structure but does not contain any technical changes to the previous version.

Over the last few years, HKFRS 1 has been amended many times to accommodate first-time adoption requirements resulting from new or amended HKFRSs. As a result, its structure has become increasingly convoluted. The new version of HKFRS 1 does not contain any technical changes but has been restructured to make it clearer and to better accommodate future changes.

The main change relates to the text dealing with the various exceptions and exemptions to the principle that an entity's opening HKFRS statement of financial position shall comply with each HKFRS. This text has been removed from the main body of the Standard and placed in the Appendices



to the Standard. This change puts the principles of the Standard up-front and will allow further amendments to the Standard more easily in the future.

The restructured version replaces the previous version and is effective for entities applying HKFRSs for the first time for periods beginning on or after 1 July 2009\*. Earlier application is permitted.

\* The revised version of HKFRS 1 was originally effective for periods beginning on or after 1 January 2009. As it referred to the revised versions of HKFRS 3 "Business Combinations" and HKAS 27 "Consolidated and Separate Financial Statements" however, technically some of the guidance in it was not valid from 1 January to 1 July 2009. Therefore the effective date of the revised standard was changed to periods beginning on or after 1 July 2009.

# HK(IFRIC) Interpretation 17

## Distributions of Non-cash Assets to Owners

The International Financial Reporting Interpretations Committee has published IFRIC 17 “Distributions of Non-cash Assets to Owners” in response to requests for guidance on how to account for distributions of assets other than cash as dividends to owners. The HKICPA issued the HKFRS equivalence (i.e. HK(IFRIC) Interpretation 17) in December 2008.

The HK(IFRIC) - Int 17 addresses the issues of when an entity should recognise a dividend payable in respect of a distribution of non-cash assets, and how that dividend should be measured. The Interpretation requires:

- a liability to pay a dividend to be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- a liability to distribute non-cash assets as a dividend to be measured at the fair value of the assets to be distributed; and
- any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable upon its settlement to be recognised in profit or loss.

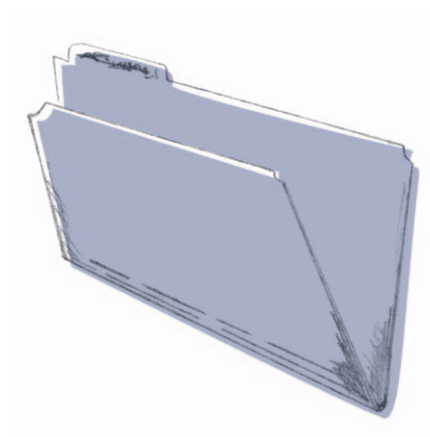
HK(IFRIC) - Int 17 will affect distributions of items such as property, plant and equipment, businesses, and ownership interests in another entity.

It does not however apply to distributions of non-cash assets that are controlled by the same party before and after the distribution. It will not apply then to transfers of businesses within a group by way of dividends. Nor does it apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary.

HK(IFRIC) - Int 17 must be applied for annual periods beginning on or after 1 July 2009. Retrospective application is not permitted. Earlier application is permitted but the entity must also apply HKFRS 3 “Business Combinations” (Revised 2008), HKAS 27 “Consolidated and Separate Financial Statements” (Revised 2008) and HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (as amended by this Interpretation).

### Comment

Overall we consider the requirements of HK(IFRIC) - Interpretation 17 on the fair value of non-cash distributions to be useful, not least from a stewardship perspective. We believe that HK(IFRIC) - Interpretation 17's requirements will reduce diversity in how non-cash distributions are accounted for and improve financial reporting overall. We therefore welcome the publication of this guidance.



# HK(IFRIC) Interpretation 18

## Transfers of Assets from Customers

In January 2009, the International Financial Reporting Interpretations Committee published IFRIC 18 “Transfers of Assets from Customers”. The HKFRS equivalence, HK(IFRIC) Interpretation 18, was issued in February 2009.

HK(IFRIC) - Int 18 applies to agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must then use to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or both. It also applies to agreements in which an entity receives cash that must be used only to construct or acquire property, plant and equipment that must be used for those purposes. In practice the recipients of such transfers tend to be entities in the utilities industry.



The Interpretation addresses the issues of whether an asset should be recognised by the recipient (and, if so, the amount to be recognised) and whether the transaction results in revenue of the recipient (and, if so, the period over which revenue is recorded).

The Interpretation requires:

- an asset to be recognised if the transferred item meets the definition of an asset set out in the Framework. The key consideration is whether the recipient controls the item in question;
- where an asset is recognised, it is recorded at fair value on initial recognition;
- transactions that give rise to a recognised asset for the recipient are revenue generating transactions; and
- such revenue is recorded as the services the recipient has agreed to provide to the customer are delivered.

Cash contributions within the scope of the Interpretation are accounted for as follows:

- the asset constructed or acquired is recorded at cost in accordance with HKAS 16; and
- the cash received is recognised as revenue in a manner consistent with the guidance in the paragraph immediate above and HKAS 18.

HK(IFRIC) - Int 18 must be applied prospectively to transfers of assets received on or after 1 July 2009. Earlier application is permitted provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred.

### Comment

We welcome the IASB's publication of this guidance.

Applying the approach in the Interpretation will require judgement, in particular in assessing whether an asset should be recognised and, if so, the period over which the associated revenue should be recorded. It is also likely to result in a number of entities in the utility sector changing their accounting policies. Nonetheless the Interpretation should result in more consistent application in an area where practice has been diverse and is therefore to be welcomed.

# Watch out for...



The credit crisis has adversely affected debt and equity markets and resulted in a general weakening of the economy in many parts of the world. The priority for businesses will be to survive through the downturn.

Inevitably there will also be an impact on the preparation of many entities' annual financial statements. The following table lists some examples of HKFRS-related accounting issues that may become more significant in

the current economic environment and which may affect you. The list is not exhaustive and is intended to illustrate the range and breadth of issues that may require increased attention.

Topic	Potential accounting issues	Selected HKFRS references
Judgements and estimates	Increased uncertainty may require additional disclosures about assumptions and other major sources of estimation uncertainty.	HKAS 1.116-124
Going concern disclosures	Material uncertainties over going concern must be disclosed.	HKAS 1.23-24
Covenant compliance and current vs non-current distinction	Breaches of loan covenants might result in non-current liabilities becoming current. The classification as current at year-end is not reversed by a covenant waiver granted post-year-end.	HKAS 1.65-66
Deferred tax	Reduced expectations of future profits may call into question the appropriateness of recognising deferred tax assets in respect of carry-forward tax losses and deductible temporary differences.	HKAS 12.24-32 and 34-36
Property, plant & equipment	Residual values and useful lives of items of PP&E must be reviewed at least each year-end. Residual values are based on current values that could be obtained for the item in its end of useful life condition, and may therefore need to be adjusted downwards to reflect depressed market conditions.	HKAS 16.6 and 51
Impairment of non-financial assets	The current economic conditions will have a widespread impact on impairment testing. Some specific factors to consider include: <ul style="list-style-type: none"> <li>increased prevalence of objective evidence of impairment,</li> <li>cash flow estimates to incorporate in value-in-use calculations,</li> <li>discount rates to apply in estimating value-in-use,</li> <li>the effects of reorganisations and restructuring on the allocation of goodwill to Cash Generating Units for the purposes of impairment testing.</li> </ul>	HKAS 36 generally
Impairment of financial assets	HKAS 39 requires an assessment of the existence of objective evidence of impairment for all financial assets other than those reported at fair value through profit or loss (including available-for-sale assets). It can be expected that there will be objective evidence of impairment in many more cases than in recent years. Specific points to consider include: <ul style="list-style-type: none"> <li>for investments in equities a significant or prolonged decline in fair value to below cost is one type of objective evidence of impairment.</li> <li>for debt type assets, objective evidence of impairment includes financial difficulty of the debtor, breaches of the term of the instrument and it becoming probable that the debtor will enter bankruptcy or financial reorganisation.</li> </ul>	HKAS 39.58-70
Intangible assets	It may become inappropriate to recognise (or continue to recognise) an intangible asset for internally generated development activities as a result, for example, of reduced expectations of future economic benefits.	HKAS 38.57-62
Financial instruments – disclosures	HKFRS 7 includes extensive requirements on the disclosure of the accounting effects and risks associated with entities' use of financial instruments. Many of these disclosures are likely to be more significant in the current environment and will be of interest to users and regulators.	HKFRS 7 generally
Post-employment benefits	Issues arise in particular in relation to actuarial assumptions in measuring defined benefit plan expenses and obligations, including the applicable discount rate for measuring the benefit obligation and the expected return on plan assets.	HKAS 19

# 2009: The year of HKFRS mini-convergence

Entities in Hong Kong have faced relatively few new requirements since the initial full convergence with IFRS in 2005. 2009 is the year in which that changes.

This is because there are a number of major standards that become effective for accounting periods beginning on or after 1 January 2009. The table

below summarises some of the main changes. The implementation of recent HK(IFRIC)-Interpretations will also have a significant effect on some entities. The combined impact is sufficiently substantial to lead some commentators to refer to 2009 as a year of “mini-convergence”. And the changes will not stop there. Looking further ahead, the revised version of

HKFRS 3 “Business Combinations” and HKAS 27 “Consolidated and Separate Financial Statements” become effective for accounting periods beginning on or after 1 July 2009.

It is fair to say that HKFRS convergence with IFRS never really stops...

Title	Summary of main changes	Effective for accounting periods beginning on or after
HKFRS 8 “Operating Segments”	Requires operating segments to be identified based on internal reports used to allocate resources to the segment and assess performance. Requires the amount of each operating segment item reported in the notes to the financial statements to be the measure reported to the chief operating decision maker for the purposes of allocating resources and assessing performance. Requires the amounts disclosed for reportable segments to be reconciled to the corresponding amounts in the primary financial statements.	1 January 2009
HKAS 23 “Borrowing Costs (Revised 2007)”	Eliminates the option of recognising borrowing costs as an expense. Requires borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets to be capitalised as part of the cost of those assets. For entities that have previously expensed borrowing costs, there are transitional provisions which should be examined carefully (see November 2008 Financial Reporting News for further details).	1 January 2009
HKAS 1 “Presentation of Financial Statements (Revised 2007)”	Requires entities to present all items of income and expense recognised in the period in either a single “statement of comprehensive income” or in two separate statements (an “income statement” and a “statement of comprehensive income”). Introduces a requirement to present an additional (3rd) balance sheet (or statement of financial position) as at the beginning of the earliest comparative period when an entity makes a retrospective change in accounting policy or restatement, or when it reclassifies items in its financial statements (or the more familiar term is “recycle” to profit or loss). The changes are retrospective.	1 January 2009
Annual Improvements to HKFRSs 2008	Makes 36 small changes to 20 existing HKFRSs. Some of these may be significant. An example is the change in accounting for advertising and promotional activities. An entity incurring costs on promotional goods may previously have recognised catalogues and brochures as assets. These costs will now need to be expensed when the company has a “right to access” the goods.	1 January 2009 (unless stated otherwise within the Improvements)

# HKICPA invitations to comment on exposure drafts

Following its IFRS convergence policy, the HKICPA issues invitations to its members and other interested parties to comment on exposure drafts and

discussion papers issued by the IASB. When the IASB finalises these exposure drafts as IFRSs, the HKICPA converges the content of these IFRSs with

HKFRSs. On page 7 of this newsletter is a list of exposure drafts recently issued by the IASB, with the HKICPA's comment deadlines included.

## IFRSs and other news

# IASB exposure drafts and discussion papers

## Recently issued exposure drafts and discussion papers

Document type	Title	IASB's comment deadline	HKICPA's comment deadline
IASB Exposure Draft	Relationships with the State - Proposed amendments to IAS 24 (see the article entitled "Relationship with the State" below)	13 March 2009	20 February 2009
IASB Exposure Draft	ED10 Consolidated Financial Statements (see the article entitled "IASB proposes new consolidation standard" below)	20 March 2009	27 February 2009
IASB Exposure Draft	Post-implementation Revisions to IFRIC Interpretations - Proposed amendments to IFRIC 9 and IFRIC 16 (see the article entitled "IASB proposes amendments to IFRIC 9 and 16" below)	2 March 2009	23 February 2009
IASCF Paper	IASC Foundation Review of the Constitution Identifying Issues for Part 2 of the Review	31 March 2009	13 March 2009
Discussion Paper	Preliminary Views on Financial Statement Presentation (see the article entitled "Joint IASB and FASB consultation on financial statements presentation" below)	14 April 2009	13 March 2009
Discussion Paper	Preliminary Views on Revenue Recognition in Contracts with Customers (see the article entitled "IASB and FASB propose joint approach for revenue recognition" below)	19 June 2009	22 May 2009

## Relationships with the State

The IASB has published an Exposure Draft entitled “Relationships with the State (proposed amendments to IAS 24)” which proposes to simplify the disclosure requirements that apply to state-controlled entities.

Under the current version of IAS 24, state-controlled entities that use IFRSs must disclose transactions with other state-controlled entities. In some countries such as China, however, state controlled entities are such a major segment of the economy that the amount

of disclosure needed to comply with this requirement is regarded as excessive.

The IASB had originally published an Exposure Draft in February 2007 which had proposed an exemption from the disclosure requirements in IAS 24 for entities controlled, jointly controlled or significantly influenced by a state. Respondents expressed concern however over the complexity of the proposals, caused in particular by a proposed requirement to assess whether state influence exists.

In the light of respondents’ concerns, the IASB has decided to revise and simplify its proposed exemption for state-controlled entities.

Unlike the original proposal, the revised exemption would not require state-controlled entities to assess the extent of state influence. It would exempt such entities from providing full details about transactions with other state-controlled entities and the state. Instead, (unlike the 2007 exposure draft) it would require general disclosures about the types and extent of significant transactions.

## IASB proposes new consolidation standard

The IASB has published an Exposure Draft entitled “Consolidated Financial Statements”.

The proposals are part of a comprehensive review of off balance sheet activities being conducted by the IASB. They are intended to address concerns raised by the G-20 (the Group of Twenty Finance Ministers and Central Bank Governors) over the use of special structures by reporting entities, particularly banks, in managing securitisations and other more complex financial arrangements. The G20 and other commentators had questioned whether the current requirements in this area resulted in the right things being brought onto the balance sheet. In particular, there was concern that financial statements do not convey the extent to

which reporting entities are exposed to risks from those types of structures.

The proposals aim to address these concerns by presenting a new, principle based, definition of control of an entity that would apply to a wide range of situations and be more difficult to evade by special structuring. They would introduce new or amended guidance in areas such as: control as the result of a dominant minority shareholding (de facto control), the role of potential voting rights such as options and convertible bonds, and distinguishing control in an agency relationship. The proposals also include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures

and the risks to which these special structures expose the entity.

It is intended that the proposals would apply not only to the banking sector but to any entity that uses structured entities to manage its activities.

### Comment

Consolidation is currently addressed by IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. There is a tension between the models used in these pronouncements, with IAS 27 focusing on whether one entity controls another while SIC-12 uses a mixture of tests of control and of risk and rewards. Inevitably the tension between these two models has led to inconsistent application and created structuring incentives. A single IFRS on consolidation containing a principle-based definition of control which would remove these structuring incentives should therefore be an improvement.

## IASB proposes amendments to IFRICs 9 and 16

The IASB has published proposals to amend IFRIC 9 “Reassessment of Embedded Derivatives” and IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”.

The proposed amendment to IFRIC 9 would exclude embedded derivatives in contracts acquired in:

- a business combination;

- a combination of entities or business under common control as described in IFRS 3; or
- the formation of a joint venture as defined in IAS 31.

The proposed effective date is annual periods beginning on or after 1 July 2009, which coincides with the effective date of IFRS 3 “Business Combinations” (Revised 2008), with

prospective application.

The proposed amendment to IFRIC 16 would allow entities to designate as a hedging instrument in a hedge of a net investment in a foreign operation an instrument that is held by the foreign operation that is being hedged. The proposed effective date is annual periods beginning on or after 1 October 2008 with prospective application.

## Joint IASB and FASB consultation on financial statements presentation

The IASB and the US Financial Accounting Standards Board (FASB) have published a discussion paper on financial statement presentation. The discussion paper contains an analysis of the current issues in financial statement presentation and presents the boards' initial thinking on how those issues could be addressed in a possible future format.

The discussion paper is a response to concerns that:

- IFRS and US GAAP provide only limited presentation guidance;
- presentation guidelines in US GAAP are dispersed across standards;
- information is not linked across the different statements; and that
- dissimilar items are in some cases aggregated in one number.

To address these issues the IASB and the FASB propose in the Discussion Paper to introduce cohesiveness, disaggregation, and liquidity and financial flexibility as the three main objectives for financial statement presentation.

To achieve these main objectives the boards have developed a principle-based format that is presented in the discussion paper. The practical consequences of the proposed model would include more line items on the face of the primary statements, mandatory use of the direct method for cash flow reporting and a detailed reconciliation between cash flows and comprehensive income.

The proposed presentation model requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).

For those wishing to influence the debate, the Discussion Paper Stage is the best one to make your views heard at.

### Cohesiveness

Cohesiveness would ensure that a reader of financial statements can follow the flow of information through the different statements of an entity.

### Disaggregation

Disaggregation would ensure that items that respond differently to economic events are shown separately.

### Liquidity and financial flexibility

Help users assess i) an entity's ability to meet its financial commitments as they become due and ii) an entity's ability to invest



The table below illustrates the proposed classification scheme for the financial statements. (The section names are in bold type; required categories within sections are indicated by bullet points.)

Statement of financial position	Statement of comprehensive income	Statement of cash flows
<b>Business</b> <ul style="list-style-type: none"> <li>• Operating assets and liabilities</li> <li>• Investing assets and liabilities</li> </ul>	<b>Business</b> <ul style="list-style-type: none"> <li>• Operating income and expenses</li> <li>• Investment income and expenses</li> </ul>	<b>Business</b> <ul style="list-style-type: none"> <li>• Operating cash flows</li> <li>• Investing cash flows</li> </ul>
<b>Financing</b> <ul style="list-style-type: none"> <li>• Financing assets</li> <li>• Financing liabilities</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>• Financing asset income</li> <li>• Financing liability expenses</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>• Financing asset cash flows</li> <li>• Financing liability cash flows</li> </ul>
<b>Income taxes</b>	<b>Income taxes</b> on continuing operations (business and financing)	<b>Income taxes</b>
<b>Discontinued operations</b>	<b>Discontinued operations</b> net of tax	<b>Discontinued operations</b>
<b>Equity</b>	<b>Other comprehensive income</b> , net of tax	<b>Equity</b>

## IASB and FASB propose joint approach for revenue recognition

The IASB and the US Financial Accounting Standards Board (FASB) have published a discussion paper “Preliminary Views on Revenue Recognition in Contracts with Customers”.

Revenue recognition literature in US GAAP and IFRS is quite different, with both being considered in need of improvement. Under US GAAP, revenue recognition requirements are found in various standards, many of which are industry-specific. Some of these standards can produce conflicting results for transactions which are in fact economically similar. Whilst IFRS contains fewer standards on revenue recognition, the two main standards

(IAS 18 “Revenue” and IAS 11 “Construction Contracts”) have been criticised for being inconsistent and being difficult to apply beyond simple transactions.

The objective of the discussion paper is to improve the existing guidance under both IFRS and US GAAP by developing a single revenue model that can be applied consistently regardless of industry. Under the proposals, an entity would recognise revenue when it satisfies a performance obligation by transferring goods and services to a customer as contractually agreed.

It is anticipated that for many contracts (particularly those for commonplace

retail transactions), the proposed revenue recognition model would cause little, if any change. In some circumstances, however, applying the boards’ proposed model would lead to changes from present practice. For example, entities that at present recognise revenue for construction-type contracts would recognise revenue during construction only if the customer controls the item as it is constructed.

The discussion paper does not seek to include all the guidance that would be included in a proposed standard but presents the basic model and its implications in order to seek views from respondents.

## Additional disclosures proposed for investments in debt instruments

Another by-product of the credit crisis and the IASB and FASB round-tables has been the publication of an Exposure Draft “Investments in Debt Instruments”.

Suggestions had been made in the round-tables that disaggregated information about impairment losses on available-for-sale debt instruments would be useful.

Specifically, it was suggested that disaggregation of the impairment loss should identify the portion which represents the incurred loss – ie the loss amount that would be recognised under the impairment model for debt instruments measured at amortised cost.

As a result the IASB is proposing to amend IFRS 7 “Financial Instruments:

Disclosures” to require entities to provide additional disclosures on all investments in debt instruments, other than those classified in the fair value through profit or loss category. These proposals are intended to make it easier to compare investments in debt instruments that are classified in different categories.

More specifically, the proposals would require entities to:

- state in tabular form the fair value, amortised cost and amount at which the investments are actually carried in the financial statements;
- disclose the effect on profit or loss and equity if all debt instruments had been accounted for at fair value or at amortised cost.

The IASB believes that the proposed disclosures would allow greater comparability between investments in debt instruments held with and by different entities, and so enhance investors’ confidence in the financial markets. Similar proposals are being made by the US FASB.

### Comment

We believe there is a good case for requiring disclosures that enable users to better understand the nature of impairment losses recognised on available-for-sale debt assets. We are not convinced that this is an urgent matter however.

Should the IASB decide that fast track amendments are necessary we would prefer a more limited disclosure requirement that is tightly focused on this specific matter.

# IASB response to the credit crisis

The last quarter of 2008 was dominated by the IASB's response to the credit crisis. Indeed so many pronouncements and proposals were made by the IASB in the last three months of 2008 that it can be hard to view them as a whole. This article provides an overview, with separate articles in this newsletter then looking at selective parts in greater detail.

October saw the IASB issue three separate documents in response to the credit crisis:

- an amendment to permit reclassifications of financial assets under certain circumstances (see November 2008 Financial Reporting News for details);
- proposals to enhance disclosures of financial instruments; and
- publication of guidance for the application of fair value in illiquid markets (see November 2008 Financial Reporting News for details).

This was followed by the establishment of a Financial Crisis Advisory Group (FCAG). The FCAG is a high-level advisory group set up by the IASB and the FASB to consider financial reporting issues arising from the global financial crisis. Its primary function will be to advise the boards about standard-setting implications of (1) the global financial crisis and (2) potential changes to the global regulatory environment. The group is expected to conclude its activities within approximately six months.

At around the same time, the IASB and FASB also announced a series of joint round-table meetings. These meetings provided the two boards with an opportunity to hear input from a wide range of stakeholders including users and preparers of financial statements, governments, regulators and others.

Then in December, the IASB published the following proposals (the last two of which were influenced by comments

received during the roundtable meetings):

- a proposed new standard on consolidations as part of a comprehensive review of off-balance sheet risk;
- proposed additional disclosures for investments in debt instruments; and
- proposed amendments to clarify the accounting for embedded derivatives.

It is likely that the IASB's response will not stop there. Further proposals on off balance sheet items, covering the derecognition of assets and liabilities, are expected in the first quarter of 2009. We also anticipate continued attention on the role of fair value accounting and the interaction between general purpose financial reporting and prudential supervision of financial institutions. 2009 promises to be an interesting year in financial reporting.



# Fair value – the debate continues

Some commentators have been getting increasingly vocal in their criticism of fair value accounting. The debate on the merits of fair value accounting continued in the last quarter of 2008 on both sides of the Atlantic.

In Europe, the European Commission wrote to the IASB at the end of October 2008, asking for several specific changes to be made to IAS 39, and asking for the role of fair value accounting to be comprehensively addressed in the context of ongoing IASB projects.

In the US meanwhile, the US Securities and Exchange Commission (SEC) has published the report it was required to conduct on the use of “mark-to-market”

accounting by the Emergency Economic Stabilization Act of 2008.

Although the report is based on an examination of the effects of fair value accounting under US GAAP on US companies, it touches on fair value accounting under IFRS and the results will be of interest to the IASB.

The report notably recommends against the suspension of fair value accounting standards (the Emergency Economic Stabilization Act had given the SEC authority to suspend mark-to-market accounting if it determined that it was in the public interest).

It goes on to add that investors generally

believe fair value accounting facilitates better investment decision making and that it did not appear to play a meaningful role in the bank failures that occurred in 2008. It therefore recommends improvements to existing practice rather than suspending the current standards on fair value accounting.

Some of the report’s recommendations to the US Financial Accounting Standards Board are already being considered by the IASB. Other recommendations, such as examining the impact of liquidity in the measurement of fair value, may influence the direction of the IASB’s work in future months as it itself reviews the role of fair value accounting.

## SEC issues proposed IFRS roadmap

The SEC has finally published its long awaited “roadmap” to the potential mandatory implementation of IFRS in the United States.

The IFRS roadmap was originally announced in August 2008 (see the November edition of Financial Reporting News) but was not actually published until 18 November 2008. The delay was caused by the worldwide

financial crisis and the possibility that the European Union might impose an IAS 39 “carve-out” in response to it, which would have derailed the convergence of IFRS with US GAAP.

The roadmap outlines certain milestones that, if achieved, could lead to mandatory transition to IFRSs. The roadmap was published in the Federal Register on 21 November 2008 and is

open for comment until 19 February 2009, meaning that its finalisation will require approval during the first months of the Obama administration in the United States. Early comments from Mary Schapiro, President Barack Obama’s appointment as SEC Chairman, have indicated that such approval is not necessarily certain however.

### The seven milestones

- 1 Improvements in accounting standards by the FASB and the IASB
- 2 Improved accountability and the establishment of independent funding for the International Accounting Standards Committee
- 3 Improvement in the ability to use eXtensible Business Reporting Language (a form of interactive data under which financial data is tagged so that it can be easily understood and processed by computers) for IFRS reporting
- 4 Education and training on IFRS in the United States
- 5 A limited option of early use by eligible entities
- 6 An anticipated date of 2011 for a decision on whether to require mandatory adoption of IFRS for all US issuers
- 7 A potential phased transition to IFRS by US entities, with mandatory application from 2014 to 2016 depending on size.

# Effective dates of new/revised HKFRSs

The table below lists new/revised HKFRSs with an effective date on or after 1 March 2007. Entities are required to make certain disclosures in respect of new Standards and Interpretations under HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Updated to end of January 2009

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions	1 March 2007	Yes
HK(IFRIC) - INT 14	AHKAS 19 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction	1 January 2008	Yes
HK(IFRIC) - INT 12	Service Concession Arrangements	1 January 2008	Yes
HK(IFRIC) - INT 13	Customer Loyalty Programmes	1 July 2008	Yes
HKFRS 8	Operating Segments	1 January 2009	Yes
HKAS 23	Amendments to HKAS 23 Borrowing Costs	1 January 2009	Yes
HKAS 1	Presentation of Financial Statements	1 January 2009	Yes
HKFRS 2	Amendment to HKFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	Yes
HKAS 32 & HKAS	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	Yes (but must be applied in conjunction with related amendments to HKAS 39, HKFRS 7 and HK(IFRIC) - INT 2)
HKFRS 3	Business Combinations (Revised 2008)	1 July 2009	Yes (but only for periods beginning on or after 30 June 2007 and in conjunction with HKAS 27 Revised 2008)
HKAS 27	Consolidated and Separate Financial Statements	1 July 2009	Yes (but must be applied in conjunction with HKFRS 3 Revised 2008)
HKFRS 1 & HKAS 27	Amendments to HKFRS 1 First-time adoption of Hong Kong Financial Reporting Standards and HKAS 27 Consolidated and Separate Financial Statements	1 January 2009	Yes
Various	Annual Improvements to HKFRS 2008	1 January 2009 (unless otherwise stated)	Yes
HK(IFRIC) - INT 15	Agreements for the Construction of Real Estate	1 January 2009	Yes
HK(IFRIC) - INT 16	Hedges of a Net Investment in a Foreign Operation	1 July 2009	Yes
HKAS 39	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 July 2009	Yes
HKFRS 1	HKFRS 1 First-time Adoption of International Financial Reporting Standards (Revised 2008)	1 July 2009	Yes
HK(IFRIC) - INT 17	Distributions of Non-cash Assets to Owners	1 July 2009	Yes (but must also apply HKFRS 3 Revised 2008, HKAS 27 Revised 2008 and HKFRS 5 as amended by HK(IFRIC) - Int 17)
HKAS 39	Reclassification of Financial Assets - Amendments to HKAS 39 Financial Instruments: Recognition and Measurements and HKFRS 7 Financial Instruments: Disclosures	Note	Note

Note: For reclassifications made before 1 November 2008, an entity may select any date on or after 1 July 2008 to reclassify financial assets and apply the reclassification measurement requirements on that date. For reclassifications made on or after 1 November 2008, the reclassification takes effect from the date it is actually made and the reclassification measurement requirements are applied on that date.



#### About Financial reporting news

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