

Financial Reporting News

Quarterly update on financial reporting standards and developments
Issue 2 - August 2008

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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 “IFRSs and Other News”, which summarises the more significant IFRSs developments following which the HKICPA is expected to issue the HKFRSs equivalence. Accordingly you would have more time to plan your financial reporting ahead of the HKICPA’s move.

Our August edition leads with an article on the first annual improvements project adopted by the HKICPA as to maintain the convergence of HKFRSs with IFRSs. We then look at some recent changes that have taken place. In the “IFRSs and other news” section, we comment on the effect the credit crisis may have on the future reporting of financial instruments.

The first annual improvements project

In May 2008, the IASB has completed its first round of annual improvements by publishing “Improvements to IFRSs” (the 2008 Improvements). These make minor amendments to a number of International Financial Reporting Standards. Pursuant to the HKICPA’s convergence policy with IFRSs, the Institute is expected to adopt the same amendments to HKFRSs shortly.

The annual improvement project is intended to deal with non-urgent (but necessary) minor amendments. These could be matters referred to the International Financial Reporting Interpretations Committee (IFRIC) or suggestions from practitioners. Rather than making piecemeal changes during the year, the process streamlines the improvement activity through publication of changes in a single, annual document.

The 2008 Improvements are divided into two parts, with the first part including amendments that result in changes for presentation, recognition or measurement purposes while the second deals with amendments that are terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

In most cases the amendments apply for annual periods beginning on or after 1 January 2009, with early adoption permitted.

Comment

The IASB has removed most of the more controversial changes contained in the Exposure Draft from the 2008 Improvements. An example was the proposed broadening of the definition of a derivative (including embedded derivatives) which we felt was likely to capture many contracts currently outside the scope of IAS 39 “Financial Instruments: Recognition and Measurement”. This proposal did not seem to fall into the “minor but necessary” category. Nonetheless, one controversial issue that the Board did include concerns accounting for advertising and promotional activities. An entity incurring costs on promotional goods such as catalogues will need to expense these costs when it has a “right to access” the goods. Entities that previously recognised catalogues and brochures as assets will therefore need to review their accounting policies in the light of the 2008 Improvements.



Amendments to HKFRS 1 and HKAS 27

In May 2008, the IASB issued amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements”, entitled “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”. Corresponding amendments to the HKFRS are expected to be announced in due course.

These changes affect only the separate financial statements of a parent entity or investor. In some jurisdictions, parent entities apply IFRS in their consolidated financial statements but continue to use local GAAP in their separate (or “Company-only”) financial statements. The changes aim to remove one of the problems which have discouraged the use of IFRS in separate financial statements. The main changes are:

- the introduction of a “deemed cost” exemption into IFRS 1 for first-time adopters of IFRS when measuring the cost of an investment in a subsidiary, jointly controlled entity or associate. The deemed cost can be determined using either fair value in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” at the entity’s date of transit to IFRS or a previous GAAP carrying amount at that date, and
- the removal of IAS 27’s requirement to deduct dividends paid from pre-acquisition profits from the cost of such an investment in the investor’s separate financial statements.

Previously parent entities recognised income from investments in subsidiaries only to the extent that dividends were paid out of post-acquisition accumulated profits; distributions received out of pre-acquisition profits were regarded as a recovery of the investment and were deducted from its cost. In future, dividends receivable will be recorded as income. However, IAS 36 “Impairment of Assets” has also been amended to include a dividend in excess of the investee’s “comprehensive income” for the period as an indicator of possible impairment of the investment. “Comprehensive income” is a concept adopted in IAS 1 “Presentation of Financial Statements” (revised 2007) but is not defined in the standard. In essence, it includes all items of income and expense recognised in income statement or directly in equity but is reduced by transfers from equity to profit or loss as required or permitted by other IFRSs.

The article in this newsletter entitled “HKAS 1 Revised: Implementation draws nearer” provides more details on the amendments to HKAS 1 which is a textual copy of IAS 1.

The changes to IAS 27 also include new requirements on accounting by a parent that reorganises its group by forming a new parent entity without affecting the interests of shareholders. The new parent shall measure cost of investment at the carrying amount of its share of the equity items shown in the separate financial statements of the original

parent at the date of the reorganisation.

The amendments are effective for annual periods beginning on or after 1 January 2009. Change in accounting policy arising from the amendments to IAS 27 regarding the recognition of dividends from subsidiaries, associates and jointly controlled entities is accounted for prospectively. Regarding group reorganisations, the amendments are applied prospectively but entities may elect to apply the amendments retrospectively to past reorganisations that are within the scope of the amendments. Other later reorganisations also within the scope of the amendments should also be restated. For example, if an entity elects to apply the amendments retrospectively and designates the reorganisation in May 2005 as the first reorganisation applying the amended standard, all subsequent qualifying reorganisations should be restated.

Comment

The previous requirement to treat dividends paid out of pre-acquisition profits as a reduction of the cost of investment in a subsidiary, joint venture or associate created practical problems for many companies and no doubt was a factor behind some of them continuing to use local GAAP rather than IFRS in their separate financial statements.

The IFRS 1 changes are perhaps more pragmatic than principle-based. However, they are not inconsistent with other exceptions contained in IFRS 1 and should encourage wider adoption of IFRS in separate financial statements.

HK (IFRIC) Interpretation on Agreements for the Construction of Real Estate

In July 2008, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 15 “Agreements for the Construction of Real Estate”. The HKICPA followed its policy to converge HKFRSs with IFRSs and adopted the same interpretation as HK (IFRIC) Interpretation 15 and withdrew HK Interpretation 3 “Revenue – Pre-completion contracts for the Sale of Development Properties” (HK Interpretation 3).

The development of this Interpretation was prompted by the IFRIC’s desire to standardise accounting practice among real estate developers for “off plan” sales of apartments or houses (sales before the construction of the apartments or houses is complete). Up to now, the IFRIC has observed that there have been significant differences in the way real estate developers have accounted for such sales, with some recording revenue only when the completed unit is handed over to the buyer, and others recognising revenue as construction progresses in accordance with IAS 11 Construction Contracts.

The IFRIC Interpretation emphasises that a feature of construction contracts is the buyer’s ability to specify major structural components of the design both before and during construction activity. In March 2005, the HKICPA published its home-grown interpretation, HK Interpretation 3 with similar consensus. This home-grown interpretation concludes that pre-completion contracts for the sale of development properties are not construction contracts as defined in HKAS 11 (the HKFRS equivalence of IAS 11) if the contracts in question are not specifically negotiated for the construction of the properties. In this regard, HK (IFRIC) Interpretation 15 (the new Interpretation) is not expected to bring about significant accounting impacts on HKFRS property developers.

When the agreement (or a component of an agreement) is within the scope of IAS 18, the new Interpretation identifies three types of agreements which have distinguishable substance and are accounted for differently. The three types of agreements are:

- agreements for the rendering of services only;
- agreements for the sale of goods in which the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progress; and
- agreements for the sale of goods in which the entity transfers to the buyers control and the significant risks and rewards of ownership of the real estate in its entirety at a single time (e.g. at completion, upon or after delivery).

HK (IFRIC) 15 is effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Any change in accounting policy on first application of HK (Interpretation) 15 is accounted for retrospectively in accordance with HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

HK (IFRIC) Interpretation on Hedges of a Net Investment in a Foreign Operation

In July 2008, the International Financial Reporting Interpretations Committee (IFRIC) also published IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”. The HKICPA issued the HKFRS equivalent in August 2008.

The IFRIC clarifies certain issues about the accounting for hedges of foreign currency risk relating to foreign operations (such as subsidiaries and associates whose activities are conducted in a currency other than the functional currency of the reporting entity).

The main issues addressed are:

- the type of risk that can qualify for this form of hedge accounting, and
- where within a group the instrument that offsets that risk may be held.

In respect of the first issue, IFRIC 16 concludes that translation risks relating to exchange differences between a foreign operation’s functional currency and the reporting entity’s presentation currency are not eligible for hedge accounting. This is based on the view that mere translation of currency for presentational use does not represent an economic risk. The economic risk relates to the functional currency exposure between the parent or investor and its foreign operation.

On the second issue, IFRIC clarifies that the hedging instrument can be held by any subsidiary or parent entity within a group regardless of the entity’s functional currency.

IFRIC 16 is effective for annual periods commencing on or after 1 October 2008, with earlier application being permitted. However, in recognition of the difficulty that entities would face in preparing adequate information from the inception of the hedge relationship, retrospective application is not required. If an entity has designed a hedging instrument as a hedge of net investment but the hedge does not meet the conditions for hedge accounting in IFRIC 16, the entity applies IAS 39 “Financial Instruments: Recognition and Measurement” to discontinue that hedge accounting prospectively. In our view, this means the gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity will continue to be deferred until the foreign operation being hedged is disposed of.



Proposed amendments to the extant HK SME-FRF and SME-FRS and consultation on the proposed restructuring of financial reporting by private companies in Hong Kong

In March 2007, the Financial Services and the Treasury Bureau published a consultation paper on the Rewrite of the Accounting and Auditing Provisions of the Hong Kong Companies Ordinance (the Consultation Paper). The Consultation Paper proposes that a private company which is the holding company of a small group of companies would be allowed to apply section 141D of the Companies Ordinance and prepare group accounts provided that certain "small group" size criteria are met. Accordingly, in May 2008, the HKICPA released an exposure draft proposing amendments to the extant Small and Medium-Sized Entity Financial Reporting Framework (SME-FRF) in respect of the qualifying criteria for both Hong Kong and non-Hong Kong incorporated companies and the Small and Medium-Sized Entity Financial Reporting Standard (SME-FRS) in respect of the preparation of group accounts. A holding company is required to present consolidated financial statement unless it is exempted under the SME-FRS.

In addition, the HKICPA considers that cash flow statements provide useful information to users of financial statements, such as to assess the entity's ability to generate cash and cash equivalents. Accordingly, the HKICPA has proposed in the Exposure Draft to amend the extant SME-FRS to require the preparation of cash flow statement.

A few days before publishing the exposure draft to amend the SME-FRF & FRS, the HKICPA issued a consultation paper to seek views as to whether the reporting burden on private companies should be reduced by introducing a financial reporting framework for large private companies. The proposed introduction of a new financial reporting framework also targets to match the financial information needs of financial statement users of private companies.

The consultation paper proposes 3-tier financial reporting for companies incorporated in Hong Kong as follows:

- listed companies are required to prepare their financial statements following HKFRSs;

- large private companies can select either HKFRSs or a large private company standard; and
- small private companies can select either HKFRSs, a large private company standard or SME-FRF & FRS.

The large private company standard could be developed by either reducing disclosures under HKFRSs or adopting the IFRSs for SMEs (with or without simplifications) which is currently an exposure draft.

This consultation paper as well as the exposure draft of proposed amendments to the SME-FRF & FRS are available on the HKICPA website. Comment period closes on 30 September 2008. Comments may be sent by mail, fax or e-mail to:

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HKAS 1 Revised: Implementation draws nearer

Although HKAS 1 “Presentation of Financial Statements” (revised 2007) does not become effective until reporting periods beginning on or after 1 January 2009, preparers of accounts should be thinking now about the changes that it will bring. The new requirements are retrospective so entities adopting them in 2009 will need comparative information for 2008.

Perhaps the most important change is the requirement 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”). “Comprehensive income” includes normal profits and losses along with other gains and losses that are reported outside profit or loss in accordance with HKFRS. These items of other comprehensive income include revaluation surpluses, actuarial gains and

losses and changes in the fair value of available-for-sale financial assets. These items, previously charged or credited to equity, will in future be reported separately from owner transactions such as dividends and changes in share capital.

The new requirements will focus attention on comprehensive income as a performance indicator in addition to the more traditional net income sub-total, and could result in a change in the way analysts read the financial statements.

The amended version of the standard also makes changes to the titles of the primary financial statements, with the term

- “statement of financial position” replacing “balance sheet”;
- “statement of cash flows” replacing “cash flow statement”; and
- “statement of comprehensive income” replacing “statement of recognised income and expenditure” as explained above.

While these changes in title have attracted considerable attention, their use is not mandatory. Instead preparers may be wise to focus on a change that has attracted less attention but could have a major impact – the need to make additional comparative disclosures in particular circumstances.

HKAS 1 as amended in 2007 introduces a requirement to present an additional balance sheet (or statement of financial position) as at the beginning of the earliest comparative period in a set of financial statements when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its financial statements.

Should you find that you need to prepare a third balance sheet, 2009 will suddenly seem not so far away!

HKICPA invitations to comment on exposure drafts

Following its IFRSs convergence policy, the HKICPA issues invitations to its members and other interested parties to comment on exposure drafts and discussion papers released by the IASB. When the IASB finalises these exposure drafts as IFRSs, the HKICPA converges

the content of these IFRSs with HKFRSs. On page 8 of this newsletter is a list of exposure drafts recently issued by the IASB, with the HKICPA’s comment deadlines included.



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 Discussion Paper	Discussion Paper: Financial Instruments with Characteristics of Equity	5 September 2008	4 August 2008
IASB Discussion Paper	Discussion Paper: Reducing Complexity in Reporting Financial Instruments (see the article entitled "Reducing the complexity in reporting financial instruments" below)	19 September 2008	15 August 2008
IASB Discussion Paper	Preliminary Views on Amendments to IAS 19 Employee Benefits (see the article entitled "IASB takes first step to revising IAS 19" below)	26 September 2008	25 August 2008
IASB Discussion Paper	An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information (see the article entitled "Conceptual framework – views sought" below)	29 September 2008	29 August 2008
IASB Discussion Paper	Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity (see the article entitled "Conceptual framework – views sought" below)	29 September 2008	29 August 2008

Reducing the complexity in reporting financial instruments

The IASB has published a Discussion Paper "Reducing the Complexity of Financial Instruments" as the first step in a project towards developing a less complex and principles-based standard that will replace IAS 39 'Financial Instruments: Recognition and Measurement'.

The Discussion Paper considers the main sources of complexity in reporting financial instruments. The authors suggest that a key source of complexity is the multiple methods currently used to measure financial instruments.

The Paper argues that the long-term solution to these problems is a move to full fair value, but then explains why this solution is not realistic in the near term. Accordingly, three possible 'intermediate approaches' are explored.

The intermediate approaches suggested are:

- amending the current measurement requirements;
- replacing them with alternative requirements; and
- simplifying hedge accounting requirements.

Ways of amending the current measurement requirements include reducing the number of categories of financial assets by, for example, eliminating either the held-to-maturity or the available-for-sale-categories. Alternatively, some of the current measurement restrictions such as the tainting rules for the held-to-maturity category could be eliminated.

Under the second intermediate approach, the existing measurement requirements would be replaced with a fair value measurement principle. Fair value would become the default category for financial instruments but limited, optional exemptions would be made to allow some instruments to be measured at amortised cost. The nature of the exemptions would no doubt be of significant interest – one approach put forward is to base it on the extent of variability of an instrument’s cash flows.

The third intermediate approach is to simplify hedge accounting requirements in some way. This might be accomplished by replacing the current models with a less complex fair value hedging model or simplifying the existing model by changing the requirements for assessing hedging effectiveness or the hedging of portions or partial term hedges.

Comment

The project is at present only on the IASB’s research agenda (as opposed to being an active agenda project), so those readers hoping to see a reduction in complexity in the near future are likely to be disappointed.

It is nevertheless a thought-provoking paper for several reasons. It is notable in part for what it does not cover. Some issues, such as derecognition, are covered in separate projects while others, such as IAS 39’s complex language and convoluted structure, or its lack of a clear principle on when an embedded derivative is “closely related”, are not addressed at all. More fundamentally, however, should the IASB be seeking to make significant “intermediate” changes to IAS 39 if it has already decided on the long-term solution?

IASB takes first step to revising IAS 19

The IASB has issued a Discussion Paper “Preliminary Views on Amendments to IAS 19 Employee Benefits” which sets out the IASB’s preliminary views on how the accounting for certain types of post-employment benefit, including pensions, could be improved, aiming to increase transparency in the accounting for post-employment benefits.

IAS 19 has been criticised in many quarters for permitting the inclusion of misleading figures in the statement of financial position (balance sheet). The criticisms stem largely from the so-called “corridor mechanism” which enables companies to defer the recognition of actuarial gains and losses on their defined benefit pension schemes.

The preliminary view expressed in the Discussion Paper is that the options for deferred recognition of gains and losses in defined benefit plans should be removed, thereby improving comparability between companies and reflecting the actual pension scheme exposure more accurately.

The Discussion Paper also proposes a new classification of what it refers to as “benefit promises” into “contribution-based promises” and “defined benefit promises”. Some schemes that currently fail the IAS 19 definition of “defined contribution plans” would fall into the new contribution-based category. The Paper puts forward a new measurement attribute for contribution-based promises, which would involve a fair

value approach assuming that the benefit promise does not change. This would not change the accounting for simple fixed contribution schemes but is intended to clarify and improve the accounting for plans that include a promised return on contributions linked to an asset or an index.

In this respect, the focus of the Discussion Paper is quite narrow: it is principally aimed at addressing the accounting for cash balance pension scheme plans or pension schemes which contain promises linked to contributions with a minimum guaranteed return. Using current terminology, these schemes have some of the characteristics of both defined benefit plans and defined contribution plans.

Conceptual framework – views sought

The IASB and the US Financial Accounting Standards Board (FASB) have published two consultative documents relating to their joint project to develop an improved conceptual framework. The project is an important one as a solid foundation upon which future standards can be based is essential if the boards are to succeed in their aim of developing principles based standards which are consistent with one another.

The first document is an Exposure Draft which seeks views on an improved

objective of financial reporting, the qualitative characteristics of information provided by financial reporting and constraints on the provision of that information. It proposes that the objective of financial reporting is to provide financial information that is useful to present and potential equity investors, lenders and other creditors in making decisions as capital providers.

The second document sets out the Boards’ preliminary views on the

reporting entity concept and related issues. Although the reporting entity concept determines some important aspects of financial reporting, the boards’ existing frameworks do not address it specifically.

Views on the two documents are invited by 29 September 2008. There are eight phases to the overall project, so while the publications dealing with the first two phases are welcome, it will be some while before we see completion of the revised conceptual framework.

The International Financial Reporting Standard for Private Entities – a better name for the IFRS for SMEs project

The IASB has begun redeliberating the proposals in the Exposure Draft of a proposed IFRS for SMEs, which has led amongst other things to a change in name for the project.

Some commentators struggled to reconcile the use of the term “Small and Medium-sized Entity” with that project’s scope (it addressed the accounting for all entities which do not have shares issued on a public stock market and which therefore could be any size, big or small). They will be pleased to learn that the IASB has decided to rename the project the “International Financial Reporting Standard for Private Entities” although its scope remains the same.

Other important decisions that were tentatively made by the IASB in its May and June meetings included a resolution that the final standard should be a stand-alone document and that all accounting policy options contained in the full text of IFRSs should be available to private entities. This would mean that topics such as share-based payment and lessor accounting for finance leases will now be addressed directly rather than by cross-reference to full IFRS.

The eventual standard will also reflect the requirements contained in the revised version of IAS 1 “Presentation of Financial Statements” published last year. Amongst other things, this will mean that the final version of the IFRS

for Private Entities will use the new titles for financial statements contained in IAS 1 (e.g. Statement of Financial Position rather than Balance Sheet). As is the case for full IFRS, these titles will not be mandatory. Entities using the IFRS for Private Entities will also be required to present a “statement of comprehensive income”.

The Board will continue to debate the proposals in future meetings before any final standard is developed.

Convergence moves a step closer

Following the elimination of the US GAAP reconciliation requirement for SEC-registered foreign companies that use IFRS, the IASB and FASB have discussed the need to update their 2006 joint Memorandum of Understanding (MoU). With the reconciliation milestone achieved, the Boards have set their sights on adoption of IFRS in all of the world’s major capital markets by 2013. The Boards also acknowledge that a stable period will be needed ahead of that date.

The revised MoU is not yet final, but the Boards have discussed its major themes. The most significant outcome is an expected reordering of the IASB’s priorities and work plans between now and 2011. That is the target date by

which “major deficiencies” in IFRS will need to be addressed if the ambitious 2013 goal is to have a realistic chance of success. The projects falling into the “major deficiencies” category are:

- **Revenue recognition** – the Boards regard existing guidance in IAS 18 “Revenue” as incomplete, insufficient, and internally inconsistent. Preparers who do not find a ready answer in IAS 18 often resort to the detailed guidance provided in US GAAP. The Boards therefore intend to develop a single model of revenue recognition in time for the 2013 deadline.

- **Fair value measurement** – IFRS currently lacks a consistent/robust definition of fair value, and this has been identified as a significant issue for US investors. The Boards therefore aim to complete a project on this matter by mid-2011 by limiting the objective of the project to amending existing IFRSs to replace the various measurement terms used with references to either entry or exit prices; and including a definition of exit prices that is identical to the one used in the US standard dealing with fair value measurement.

- **Consolidation policy** – the Boards have identified the need for improved guidance relating to effective control and special-purpose entities as being critical issues that need to be addressed, particularly in light of the current credit crisis. The intention is to complete a consolidation policy standard that embraces the idea of effective control by 2011.

- **Derecognition** – the Boards view both IAS 39 “Financial Instruments: Recognition and Measurement” and the US derecognition standard as being flawed and have therefore identified a need for a replacement standard to be developed which will adequately address securitisation issues.

In addition, the Boards have identified projects that address areas for which there is a significant need for improvement in IFRS, which include

financial statement presentation, postretirement benefits and lessee accounting. The MoU discussions have provided some clear pointers on the Boards’ current views on what should be done in these areas.

Inevitably, this prioritisation exercise means that other projects will be pushed back. Any other projects not specifically mentioned in the MoU can be expected to be relegated to the longer term agenda. The project on insurance is likely to fall into this category.

Credit crisis causes IASB to review its work schedule

“Sub-prime” losses and the wider effects of the global credit crisis are continuing. Unsurprisingly, these events have led to demands for the IASB to review the effectiveness of some of its standards against the backdrop of these extreme market conditions. In April the G7 finance ministers and central banks called for the IASB to take action urgently to improve accounting and disclosure standards for off-balance sheet entities and enhance guidance on fair value accounting. How will the IASB respond?

The IASB has a long-running project to develop a consolidation model applicable both to normal subsidiaries and to special purpose entities. It has recently suggested that it will omit the discussion paper stage and proceed directly to an exposure draft later this year. Around the same time, proposals to improve IFRS 7 “Financial Instruments: Disclosures” (the Standard dealing with financial instrument disclosures) may emerge. Additional transparency concerning off

balance sheet risks and arrangements is likely to be the main theme of any such proposals although refinements in other areas (such as liquidity risks) could also feature. A review is timely in any case, with 2007 being the first year in which IFRS 7 has been applied widely.

The IASB is also expected to move ahead with detailed guidance on fair value measurement, along the lines of the (US GAAP influenced) discussion paper it issued in 2007. However, it will surely be less sympathetic to calls to limit or roll-back the use of fair value accounting. Some commentators suggest that fair value is appropriate only when items are held for trading or managed on a fair value basis. Others have gone further, suggesting that fair value accounting may have exacerbated the effects of the credit crisis. Proponents of fair value argue that cost-based alternatives would mask the impact of changing market conditions and, in doing so, would ultimately prolong the difficulties. This debate will continue.

Comment

The IASB has sensibly acknowledged that standard-setters can learn from the credit crisis. Hence this difficult period may at least provide the impetus for some lasting improvements in financial reporting.

However, a note of realism is also necessary. Forming a workable definition of “off balance sheet arrangements” is a challenging task in itself, even before deciding how the transparency of such arrangements can be enhanced.

Financial statements should inform users about risks but could not have been expected to foresee a crisis that very few predicted.



Effective dates of new/revised HKFRSs

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

Updated to end of August 2008

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
HKAS 1	Amendment to HKAS 1 Presentation of Financial Statements: Capital Disclosures	1 January 2007	Yes
HKFRS 7	Financial Instruments: Disclosure	1 January 2007	Yes
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007	Yes
HK(IFRIC)-INT 12	Service Concession Arrangements	1 January 2008	Yes
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction	1 January 2008	Yes
HK(IFRIC)-INT 13	Customer Loyalty Programmes	1 July 2008	Yes
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008	Yes
HKFRS 2	Amendment to HKFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	Yes
HKFRS 8	Operating Segments	1 January 2009	Yes
HKAS 1	Presentation of Financial Statements (Revised 2007)	1 January 2009	Yes
HKAS 23	Borrowing Costs	1 January 2009	Yes
HKAS 32 & HKAS 1	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 & HK(IFRIC) 2)
HK(IFRIC)-INT 15	Agreement for the Construction of Real Estate	1 January 2009	Yes
HKFRS 3	Business Combinations (Revised 2008)	1 July 2009	Yes (but only for periods beginning on or after 30 June 2007 and must be applied in conjunction with HKAS 27 Revised 2008)
HKAS 27	Consolidated and Separate Financial Statements (Revised 2008)	1 July 2009	Yes (but must be applied in conjunction with HKFRS 3 Revised 2008)



About Financial reporting news

Financial reporting news is a quarterly update from Grant Thornton. This newsletter offers a summary of the more significant developments in HKFRSs along with insights into topical issues and comments and views from Grant Thornton. It contains information of a general nature and is not to be taken as a substitute for specific advice. Accordingly, Grant Thornton accepts no responsibility for any loss that occurs to any party who acts on information contained herein without further consultation with ourselves.

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