

Financial Reporting News

Quarterly update on financial reporting standards and developments
Issue 6 - August 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.

This issue leads with the publication of HKFRS annual improvement project 2009. The other major developments in Hong Kong were the HKICPA’s invitations to its members and other parties to give comments on IASB’s proposed amendments to IFRS. During this quarter, the IASB was busy to obtain views and comments on its discussion papers and exposure drafts of various topics. Articles covering IASB’s discussion papers and exposure drafts account for more than half of the context of this issue.

Another major development in the international field was the publication of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The “IFRS and other news” section leads with an article on this new standard.

Improvements to HKFRSs 2009

In April 2009, the International Accounting Standards Board (IASB) published its second round of annual improvement to IFRS (2009 Improvements) which makes non-urgent, but necessary, minor amendments to IFRSs. The HKICPA announced in May 2009 to adopt the 2009 Improvement for HKFRSs.

In total, there are 10 Standards and 2 Interpretations affected. Given that the objective of the annual improvement project is to address matters of detail, no significant impacts are expected. However, the amendment to HKAS 17 “Leases” could be significant to certain

entities which have interests in long term leases in land. Before the amendment, the general guidance states that a lease of land with an indefinite economic life is normally classified as an operating lease. The amendment removes this general guidance. After the amendment, the classification of leases follows the general lease classification requirement and guidance in HKAS 17. Entities would need to reassess their interests in the leases and this assessment can be judgemental in certain situations.

Appendix of this issue is a summary of the amendments and the respective effective dates.

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 and discussion papers recently issued by the IASB, with the HKICPA’s comment deadlines included.

IFRS for Small and Medium-sized Entities

After a long development period, the IASB has now published the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

The IFRS for SMEs aims to meet the demand for an international approach to the financial reporting needs of nonpublicly accountable entities for which the costs of using full IFRS are too expensive.

Rather than specifying any size criteria, the Standard defines small and medium-sized entities as being entities that are not publicly accountable. Publicly accountable entities (broadly speaking) are those that are listed or which hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

This lack of size criteria means that some large private entities will potentially be able to use the Standard. The final decisions on which entities are actually required or permitted to use the IFRS for SMEs will however rest with legislative and regulatory authorities and standard-setters in individual jurisdictions.

In terms of the Standard itself, the IFRS for SMEs has essentially been designed to work as a standalone document, and it contains no mandatory cross references to full IFRS. Where full IFRS permits a number of possible accounting options for a particular transaction, the Standard presents SMEs with a simplified version of the full requirements by reducing the number of options available to them. For example there is no option to revalue property, plant and equipment.

Other important differences from IFRS include:

- goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Where an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years
- a simpler approach to defined benefit pension plans, with no equivalence of IAS 19's "corridor" accounting
- only two categories of financial assets (cost and fair value) rather than the four categories contained in IAS 39. As an exception to the standalone nature of the Standard, entities may however choose to apply the full recognition and measurement provisions of IAS 39 if they wish

- only investment property whose fair value can be measured reliably without undue cost or effort is accounted for at fair value
- all borrowing costs are expensed.

Topics not considered relevant to SMEs, such as earnings per share and interim reporting, are omitted from the IFRS for SMEs. The IASB does however consider the principles set out in IFRS 2 "Share-based Payment" to be appropriate to share-based payment made by SMEs, and the requirements in this area are based on IFRS 2.

Now that the IASB has issued the Standard, the next stage will be to see which jurisdictions apply it, and when.



New financial reporting guides released by Grant Thornton

The Grant Thornton International IFRS team has published the following new guides in the last quarter. These publications aim to provide practical guidance on the problems most often encountered in applying IFRS in these areas.

Financial Instruments – A Chief Financial Officer's guide to avoiding the traps

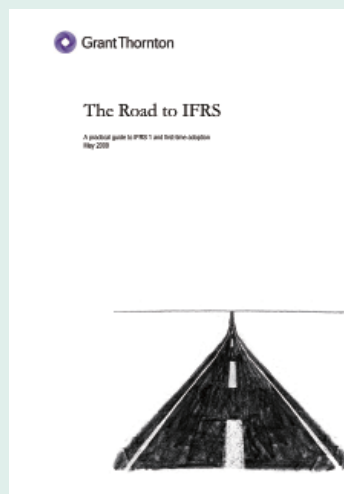


The guide is intended for Chief Financial Officers (CFOs) of businesses that prepare financial statements under IFRS.

It summarises the impact of IAS 39 "Financial Instruments: Recognition and Measurement" together with relevant parts of IAS 32 "Financial Instruments: Presentation".

It summarises the main challenges that businesses typically encounter in order to help CFOs prioritise and identify key issues. The guide will help a CFO to understand potential problem areas in order to know when to consult further.

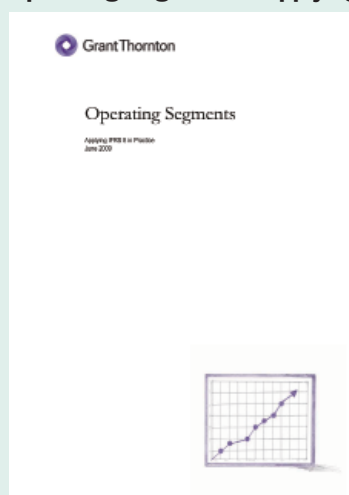
The Road to IFRS – A practical guide to IFRS 1 and first-time adoption



The guide is intended to assist companies in applying the challenging aspects of IFRS 1 "First-time Adoption of International Financial Reporting Standards". It explains IFRS 1's key implementation issues and includes interpretational guidance in certain problematic areas. It also includes several examples illustrating the Standard's disclosure and presentation requirements.

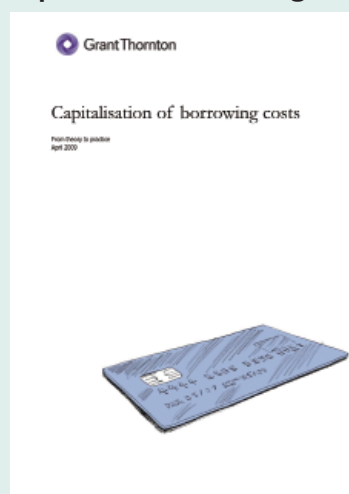
Please visit our website at www.gthk.com.hk and download copies of these guides.

Operating Segments – Applying IFRS 8 in practice



The guide is intended to assist companies in applying the challenging aspects of IFRS 8 “Operating Segments”. It explains IFRS 8’s key implementation issues and includes interpretational guidance in certain problematic areas. The guide also includes several examples illustrating the Standard’s requirements.

Capitalisation of borrowing costs – from theory to practice



The IASB issued a revised version of IAS 23 “Borrowing Costs” in March 2007. The new standard will result in a change in accounting policy for entities that applied the benchmark treatment of expensing borrowing costs under the previous standard. These entities will now need to develop procedures to calculate the amount of borrowing costs to be capitalised.

Although the concept of capitalising borrowing costs is simple and familiar to many, putting that concept into practice frequently leads to questions. The guide considers many of these questions and provides practical views on how to address them.

IASB undertakes comprehensive review of IAS 39

In response to the global economic crisis, the IASB has agreed to undertake a comprehensive review of IAS 39 “Financial Instruments: Recognition and Measurement”.

IAS 39 is generally regarded as the most complex IFRS. The IASB is therefore seeking to break the review down into three parts with the aim of replacing all of the current requirements by 2010. This is in addition to the Exposure Drafts on derecognition and fair value measurement (see the articles entitled “IASB proposes improvements to derecognition requirements for financial instruments” and “IASB publishes draft guidance on fair value measurement” in the later part of this issue). The three phases are planned as follows:

- Phase 1 – an Exposure Draft on classification and measurement was published on 14 July 2009. The IASB has tentatively decided that mandatory application of the proposed requirements would not be before January 2012 although early application would be permitted (the IASB expects to finalise this phase in time to allow early application for 2009 year end financial statements)
- Phase 2 – publication of an Exposure Draft on impairment in October 2009. Prior to its publication, the IASB has issued a request for input on an expected cash flow approach to impairment (see the article entitled “IASB seeks input on feasibility of expected loss model for the impairment of financial assets” in the later part of this issue)
- Phase 3 – publication of an Exposure Draft on hedge accounting in December 2009.

The reason for tackling the issues in this order is that many of the concerns raised during the financial crisis related to IAS 39’s classification and measurement requirements. Among other things, these requirements affect the measurement of impairment losses on debt instruments. The IASB has therefore decided to focus on these issues first. It is also impractical to address impairment and hedging until the basic classification and measurement model has been settled.

In the classification and measurement Exposure Draft, the IASB proposes a two measurement category approach that would measure financial instruments at either fair value or amortised cost. Reclassification between these categories would be prohibited although there would be a “fair value option” available at initial recognition when amortised cost might result in an accounting mismatch.



IASB exposure drafts and discussion papers

Recently issued exposure drafts and discussion papers

| Document type | Title | IASB's comment deadline | HKICPA's comment deadline |
|-------------------------|--|-------------------------|---------------------------|
| Exposure Draft | Prepayments of a Minimum Funding Requirement (proposed amendments to IFRIC 14) (see the article entitled "IASB issues proposals to clarify the accounting for prepayments for pension funds" below) | 27 July 2009 | 13 July 2009 |
| Exposure Draft | Derecognition (proposed amendments to IAS 39 and IFRS 7) (see the article entitled "IASB proposes improvements to derecognition requirements for financial instruments" below) | 31 July 2009 | 10 July 2009 |
| Exposure Draft | Income Tax (see the article entitled "IASB looks to replace IAS 12 "Income taxes" below) | 31 July 2009 | 10 July 2009 |
| Exposure Draft | Financial Instruments: Classification and Measurement | 14 September 2009 | 1 September 2009 |
| Exposure Draft | Fair Value Measurement (see the article entitled "IASB publishes draft guidance on fair value measurement" below) | 28 September 2009 | 7 September 2009 |
| Exposure Draft | Management Commentary (see the article entitled "IASB proposes guidance for the preparation and presentation of management commentary" below) | 1 March 2010 | 8 February 2010 |
| Discussion Paper | Leases: Preliminary Views | 17 July 2009 | 3 July 2009 |
| Discussion Paper | Credit Risk in Liability Measurement | 1 September 2009 | 10 August 2009 |
| Request for Information | ("Expected Loss Model") Impairment of Financial Assets: Expected Cash Flow Approach (see the article entitled "IASB seeks input on feasibility of expected loss model for the impairment of financial assets" below) | 1 September 2009 | 10 August 2009 |

IASB publishes draft guidance on fair value measurement

The IASB has published an Exposure Draft "Fair Value Measurement". The publication is part of the IASB and US Financial Accounting Standards Board's (FASB) long-term programme to achieve convergence of IFRSs and US GAAP. It is also consistent with requests from G20 leaders to align fair value measurement in IFRSs and US GAAP.

The IASB's starting point in developing the Exposure Draft was the equivalent US standard, SFAS 157 "Fair Value Measurements" as amended. The proposed definition of fair value is identical to the definition in SFAS 157 and the supporting guidance is largely consistent with US GAAP.

The key objectives of the proposed guidance on fair value measurement are as follows:

- to establish a single source of guidance for all fair value measurements required or permitted by IFRSs to reduce complexity and improve consistency in their application
- to clarify the definition of fair value and related guidance in order to communicate the measurement objective more clearly and
- to enhance disclosures about fair value to enable users of financial statements to assess the extent to which fair value is used and to inform them about the inputs used to derive those fair values.

Current IFRSs already require some assets, liabilities and equity instruments to be measured at fair value. However, guidance on measuring fair value has been added to IFRSs piecemeal over the years as the IASB or its predecessor decided that fair value was an appropriate measurement or disclosure basis in a particular situation.

This resulted in the guidance on fair value measurement being dispersed across many IFRSs and not always being consistent between standards. Furthermore, the current guidance is incomplete, providing neither a clear measurement objective nor a robust measurement framework. The result has been to add unnecessary complexity to IFRSs, leading to diversity in practice.

The Exposure Draft addresses the definition of fair value, aiming to establish a framework for measuring fair value and making disclosures about fair value measurements. It does not require any wider use of fair values. If adopted, the Exposure Draft would replace fair value measurement guidance contained in individual IFRSs with a single, unified definition of fair value and supporting guidance (including guidance on fair value measurement in inactive markets).

The Exposure Draft defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). In the absence of an actual transaction at the measurement date, a hypothetical transaction in the most advantageous market for the asset or liability is assumed in the fair value measurement.

A fair value measurement requires companies to determine:

- the particular asset or liability that is the subject of the measurement
- for an asset, the valuation premise that is appropriate for the measurement
- the most advantageous market for the asset or liability and
- the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

Comment

We agree that the lack of complete and consistent guidance on fair value measurement of current IFRSs has resulted in disparity of treatment among companies and inconsistent application. A single and unified definition of fair value will help remove inconsistencies and complexities in this area.

The additional requirement to disclose the extent to which fair value is used and underlying inputs used to derive those fair values will enhance the readers' understanding of the fair value measurements applied by the companies. We consider these to be significant improvements.

IASB proposes improvements to derecognition requirements for financial instruments

The IASB has published "Derecognition: Proposed amendments to IAS 39 and IFRS 7". The Exposure Draft is part of the IASB's comprehensive review of off balance sheet activities and seeks to improve the derecognition requirements for financial instruments.

Derecognition of financial instruments is addressed within IAS 39 "Financial Instruments: Recognition and Measurement". Those requirements combine elements of various derecognition concepts – risks and rewards, control and continuing involvement – which are applied in a specified order to determine whether all or part of a previously recognised financial asset should be derecognised. The IASB believes that this "mixed model" adds complexity and leads to application problems. In particular, the application of the Standard to securitisations and other complex

financial arrangements has been problematic. This was highlighted as a matter of concern by the G20 leaders when they met in November 2008.

The Exposure Draft aims to respond to those concerns. It follows the publication of proposals to strengthen rules for identifying which entities a company controls (the Exposure Draft "Consolidated Financial Statements" was covered in February's Financial Reporting News).

The proposals would replace the existing IAS 39 derecognition model with a new approach that emphasises control rather than combining elements of different derecognition concepts. The proposed approach is also intended to be simpler by removing:

- tests to evaluate the extent of risks and rewards retained

- specific pass-through requirements and
- one of the three possible derecognition outcomes – being continued recognition to the extent of continuing involvement.

The proposals, if implemented, are likely to have a very significant effect on the accounting for many securitisations, debt factorings and repo transactions.

Support for the proposed amendments is by no means certain, however, with five IASB board members preferring an alternative approach. While the alternative approach also bases derecognition on whether an entity has surrendered control of the asset, it assesses control differently, having a different perspective of what the asset that is the subject of the transfer is.

The IASB is also proposing to enhance the disclosure requirements in IFRS 7 “Financial Instruments: Disclosures” to improve the evaluation of risk exposures and performance, especially in situations where an entity continues to have an ongoing involvement in a financial asset that would be derecognised under the proposals.

Given the sensitivity of this area, the IASB held round table meetings in Asia, Europe and North America in June to seek views on both these proposals and those contained in the related consolidations project.

Comment

We share the IASB’s concern that IAS 39’s existing derecognition requirements are unduly complex and give rise to frequent application issues. We therefore support the Board’s decision to review the derecognition requirements of IAS 39.

While we support a review, however, we also believe that derecognition is a complex and difficult issue. We therefore question whether substantial changes should be implemented on a fast-track timetable. In the short-term, we wonder whether the concerns raised by the G20 and others might be better addressed by improved disclosure.

IASB seeks input on feasibility of expected loss model for the impairment of financial assets

The IASB has published a request for inputs on the practical issues that may arise if an expected loss model was required in assessing impairment of financial assets. The IASB’s request for information relating to the expected loss model is part of Phase 2 of the IASB’s comprehensive review of IAS 39 “Financial Instruments: Recognition and Measurement” (see the article entitled “IASB undertakes comprehensive review of IAS 39” on page 6 of this issue). The request for information does not seek views on the relative advantages and disadvantages of alternative impairment approaches. Rather, it asks for information on the feasibility of an expected cash flow approach. The IASB will consider such inputs when developing its proposals for the impairment of financial assets, where an Exposure Draft is planned to be published in October 2009.

The current provisions of IAS 39 require an incurred loss impairment approach for financial assets amortised at cost. Under this approach, an impairment loss is required to be recognised only when a loss has been incurred. If losses are expected to arise from future events, those losses are not recognised.

The current financial crisis has resulted in many criticisms of this approach being expressed. Particular concerns have been expressed over internal inconsistencies in the approach and over the lack of clarity as to when a loss event takes place. The approach has also been criticised for creating a perceived deficiency in information as a result of incurred losses lagging probable losses.

In view of the above issues and a request from the G20 leaders, the IASB is considering the expected loss model as an alternative. This model requires an entity to make an ongoing assessment of expected credit losses, which may require earlier recognition of credit losses. It is argued by some that this would better reflect the way that financial assets are priced and the way some companies manage their business.

Currently, the IASB has identified certain challenges in the application of the expected loss model, including:

- the need to formulate expected cash flow data for individual assets and/or portfolios of assets
- the need to estimate initially and subsequently re-estimate credit loss expectations for individual assets and portfolios of assets (which is not required under the incurred loss approach)
- the interaction between individual and collective impairment assessments in the event of a loss incurred on specific assets in the portfolio (which also affects the incurred loss impairment approach to some degree).



IASB issues proposals to clarify the accounting for prepayments for pension plans

The IASB has published an Exposure Draft of proposed amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”.

The proposed amendments are aimed at correcting an unintended consequence of IFRIC 14, which interprets the application of IAS 19 “Employee Benefits” when a Minimum Funding Requirement exists in a jurisdiction as a way of protecting members of employee benefit plans.

IFRIC 14 currently states that the surplus in a plan created by a prepayment is not regarded as available as an economic benefit if the future minimum funding contribution required in respect of future service exceeds the future IAS 19 service cost. Therefore, in such cases the prepayment is recognised as an expense.

In the IASB’s view however, a company that has made a prepayment expects to obtain future economic benefits from that prepayment in the form of reduced cash outflows in future years in which

payments would otherwise have been required. It also believes that recognition of an asset would give better information because an entity that has made such a prepayment is in a more economically favourable position than one which has not.

Accordingly, the IASB is proposing to amend IFRIC 14 to require an entity to recognise an asset for a prepayment that will reduce future minimum funding requirements contributions by the entity.

IASB looks to replace IAS 12 “Income Taxes”

The IASB has published an Exposure Draft entitled “Income Tax”. The proposed new standard would, if adopted, replace the existing requirements in IAS 12 “Income Taxes”.

The Exposure Draft has been issued partly in reaction to the strain that IAS 12 has come under as a result of the considerable variations in tax regimes around the world, which has led to many requests for clarification of the Standard. It also forms part of the IASB’s plan for reducing differences between IFRSs and US GAAP.

The Exposure Draft retains IAS 12’s basic approach of accounting for income tax, known as the temporary difference approach, under which the future tax consequences of past events and transactions are recognised now rather than waiting until the tax is payable.

The Exposure Draft proposes to remove most of the exceptions in IAS 12, however, in order to simplify the accounting and strengthen the principle in the Standard. The following are a summary of some of the changes proposed:

- **Calculation methodology**
Deferred tax accounting is not carried out if there will be no effect on taxable profit when the entity recovers or settles an asset or liability for its carrying amount.
- **Investments**
The Exposure Draft proposes to restrict IAS 12’s exception from the temporary difference approach relating to a deferred tax asset or liability arising from investments in subsidiaries, branches, associates and joint ventures to investments in foreign subsidiaries, joint ventures or branches that are essentially permanent in duration. There would be no such exception for associates.
- **Introduction of definitions of tax credit and investment tax credit**
A tax credit would be defined as a tax benefit that takes the form of an amount that reduces income tax payable. An investment tax credit would be defined as a tax credit that relates directly to the acquisition of depreciable assets.
- **Removal of the initial recognition exception currently in IAS 12**
The Exposure Draft proposes to eliminate the current “initial

recognition exception” in IAS 12. In its place, it introduces a proposal for the initial measurement of assets and liabilities that have tax bases different from their initial carrying amounts. Such assets and liabilities would be disaggregated into (i) an asset or liability excluding entity-specific tax effects and (ii) any entity-specific tax advantage or disadvantage. An entity would recognise and measure the former in accordance with IFRSs and recognise a deferred tax asset or liability for any resulting temporary difference between the carrying amount and the tax basis.

- **Uncertain tax positions**
The Exposure Draft proposes that current and deferred tax assets and liabilities should be measured using the probability-weighted average amounts of possible outcomes assuming that the tax authorities will examine the amounts reported to them by the entity and have full knowledge of all relevant information. IAS 12 is silent on the treatment of uncertainty over tax amounts.

- **Classification**
Deferred tax assets and liabilities would be classified as either current or non-current on the basis of the financial reporting classification of the related non-tax asset or liability. Currently, IAS 1 “Presentation of Financial Statements” requires all deferred tax to be classified as non-current. The proposal would result in symmetry of treatment between the item giving rise to deferred tax and the deferred tax balance.

Comment

The proposals to measure uncertain tax positions using a probability-weighted average amount would be a significant change for companies, many of whom currently adopt an “all or nothing” approach to this area.

Determining the range of possible outcomes for individual tax positions and the likelihood of those outcomes occurring may be a difficult task for some companies. The proposed disclosure requirements may also result in the presentation of sensitive information.

IASB proposes guidance for the preparation and presentation of management commentary

The IASB has published a proposed nonmandatory framework to help entities prepare and present a narrative report, often referred to as “management commentary”. Management commentary is an opportunity for management to provide information on how the entity’s financial position, financial performance and cash flows relate to management’s objectives and management’s strategies for achieving those objectives. Therefore, this information is of keen interest to investors and other users of financial statements. At present, management-type reporting is mandatory in many jurisdictions but in some jurisdictions there is no guidance for such narrative reports. Many preparers and users have indicated a need for the IASB to provide such guidance.

The proposed guidance draws upon international best practice in this subject area. The IASB believes that providing non-mandatory guidance will improve the consistency and comparability of management commentary across jurisdictions.

The key objectives of the proposed guidance on management commentary are as follows:

- to prescribe a framework for the preparation and presentation of management commentary to assist management in preparing decision-useful management commentary to accompany financial statements prepared in accordance with IFRSs

- management commentary prepared under this framework will provide users of financial statements with both historical and prospective commentary on the entity’s financial position, financial performance and cash flows, and a context for understanding management’s objectives and strategies for achieving those objectives
- management commentary prepared in accordance with this framework will be within the boundaries of financial reporting and, therefore, within the scope of the conceptual framework for financial reporting.

If implemented, the proposals would not result in an IFRS and compliance with them would therefore not be a condition for entities to meet when asserting their compliance with IFRSs.

Access to the unaccompanied text of IFRS

The IASB has made the unaccompanied text of International Financial Reporting Standards available for free on its website (www.iasb.org). The

unaccompanied text comprises the core standards, but excludes additional content such as basis for conclusions and implementation guidance.



Effective dates of new/revised HKFRSs

The table below lists new / revised HKFRSs with the effective date on or after 1 January 2008. 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 July 2009

| Title | Full title of Standard or Interpretation | Effective for accounting periods beginning on or after | Early adoption permitted? |
|-------------------------------|--|---|--|
| HKFRS 2 | Amendment to HKFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions | 1 January 2010 | Yes |
| HKFRS 1 | First-time Adoption of Hong Kong Financial Reporting Standards (Revised 2008) | 1 July 2009 | Yes |
| HKAS 39 | Amendment to HKAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items | 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) |
| 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) |
| HK(IFRIC) - INT 18 | Transfers of Assets from Customers | Transfers of assets on or after 1 July 2009 | Yes provided the valuations and other information needed to apply the Interpretation to past transfers were obtained at the time those transfers occurred. |
| HKAS 32 and HKAS 1 | Amendments to 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 1 and 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 |
| HKFRS 7 | Amendments to HKFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments | 1 January 2009 | Yes |
| HKFRS 2 | Amendment to HKFRS 2 Share-based Payment: Vesting Conditions and Cancellations | 1 January 2009 | Yes |
| HKAS 1 | Presentation of Financial Statements | 1 January 2009 | Yes |
| HKAS 23 | Amendments to HKAS 23 Borrowing Costs | 1 January 2009 | Yes |
| HKFRS 8 | Operating Segments | 1 January 2009 | Yes |
| HK(IFRIC) - INT 15 | Agreements for the Construction of Real Estate | 1 January 2009 | Yes |
| Various | Annual Improvements to HKFRSs 2008 | 1 January 2009 (unless otherwise stated) | Yes |
| HK(IFRIC) - INT 16 | Hedges of a Net Investment in a Foreign Operation | 1 October 2008 | Yes |
| HKAS 39 and HK(IFRIC) - INT 9 | Embedded Derivatives – Amendments to HK(IFRIC) - INT 9 and HKAS 39 | Annual periods ending on or after 30 June 2009 | Yes |
| HKAS 39 and HKFRS 7 | Reclassification of Financial Assets – Effective Date and Transition Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures | 1 July 2008 (any reclassification made on or after 1 November 2008 takes effect from the date of reclassification. Any reclassification before 1 November 2008 can take effect from 1 July 2008 or a subsequent date) | No |
| HKAS 39 and HKFRS 7 | Amendments to HKAS 39 Reclassification of Financial assets: Effective Date and Transition | 1 July 2008 (clarifies the transition rules mentioned above) | No |
| HK(IFRIC) - INT 13 | Customer Loyalty Programmes | 1 July 2008 | 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 |

Summary of the 2009 Improvements for HKFRSs

| HKFRSs affected | Issue | Summary of change | Effective date and transition |
|--|---|---|--|
| HKFRS 2 Share-based Payment | Scope of HKFRS 2 and revised HKFRS 3 | Amends HKFRS 2 to confirm that the contribution of a business on the formation of a joint venture and common control transactions are not within the scope of HKFRS 2. | Effective for annual periods beginning on or after 1 July 2009. No transitional provisions are included. Follow the retrospective application rule in HKAS 8. Early application is permitted. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period. |
| HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations | Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations | Amends HKFRS 5 to the effect that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in that standard. The disclosure requirements of other HKFRSs are applicable to those assets (or disposal group) only if <ul style="list-style-type: none"> • these other standards require specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or • the disclosure requirements relate to assets and liabilities not within the measurement scope of HKFRS 5 and the disclosures are not disclosed elsewhere in the financial statements. | Effective for annual periods beginning on or after 1 January 2010 with prospective application. Earlier application is permitted. |
| HKFRS 8 Operating Segments | Disclosure of information about segment assets | Clarifies that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker. | Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. No transitional provisions are included. Follow the retrospective application rule in HKAS 8. |
| HKAS 1 Presentation of Financial Statements | Current/non-current classification of convertible instruments | Clarifies that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the counterparty, result in its settlement by the issue of equity instruments at any time. | Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. No transitional provisions are included. Follow the retrospective application rule in HKAS 8. |
| HKAS 7 Statement of Cash Flows | Classification of expenditures on unrecognised assets | Amends HKAS 7 to state explicitly that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities. | Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. No transitional provisions are included. Follow the retrospective application rule in HKAS 8. |
| HKAS 17 Leases | Classification of leases of land and buildings | Amends HKAS 17 to delete guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. After the amendment, the classification of land follows the general guidance in paragraphs 7-13 of HKAS 17. | Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. To be applied retrospectively to unexpired leases on the date when the amendment is adopted if the necessary information at the inception of the lease is available. Otherwise, land leases should be assessed on the date of adoption of the amendment. Difference between the fair values of finance lease assets and liabilities recognised is recognised in retained earnings at the date of assessment. |
| HKAS 18 Revenue | Determining whether an entity is acting as a principal or as an agent | Provides guidance on determining whether an entity is acting as a principal or as an agent. | None, amendment to non-mandatory appendix. |
| HKAS 36 Impairment of Assets | Unit of accounting for goodwill impairment test | Clarifies that the largest unit permitted by HKAS 36 for the purpose of allocating goodwill to cash-generating units is the operating segment level defined in HKFRS 8 before aggregation as permitted in HKFRS 8. | Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively. Earlier application is permitted. |

Appendix

| HKFRSs affected | Issue | Summary of change | Effective date and transition |
|--|--|---|---|
| HKAS 38 Intangible Assets | Additional consequential amendments arising from revised HKFRS 3 | When IASB developed IFRS 3 (revised 2008), it decided that if an intangible asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure the fair value of the asset reliably. The amendments to IAS 38 in 2009 Improvements are to clearly reflect the Board's view in this respect. | Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively for business combinations since the effective date. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period. |
| | Measuring the fair value of an intangible asset acquired in a business combination | Clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. | Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. Earlier application is permitted. |
| HKAS 39 Financial Instruments: Recognition and Measurement | Treating loan prepayment penalties as closely related embedded derivatives | Clarifies that embedded prepayment options, in which the exercise price represented a penalty for early repayment of the loan, are considered closely related to the host debt contract. | Effective for annual periods beginning on or after 1 January 2010. Earlier application is permitted. No transitional provisions are included. Follow the retrospective application rule in HKAS 8. |
| | Scope exemption for business combination contracts | Clarifies that the scope exemption in HKAS 39.2(g) applies only to binding forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. In addition, the terms of the forward contract should not exceed a reasonable period. | Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively to all unexpired contracts. Earlier application is permitted. |
| | Cash flow hedge accounting | Clarifies that gains and losses on hedging instruments that are recognised in other comprehensive income should be reclassified from equity to profit and loss as a reclassification adjustment during the period that the hedged forecast cash flows (not the assets or liabilities assumed) affects profit or loss. | Effective for annual periods beginning on or after 1 January 2010. To be applied prospectively to all unexpired contracts. Earlier application is permitted. |
| HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives | Scope of HK(IFRIC) – Int 9 and revised HKFRS 3 | Clarifies that HK(IFRIC) – Int 9 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture. | Effective for annual periods beginning on or after 1 July 2009. To be applied prospectively. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period. |
| HK(IFRIC) – Int 16 Hedges of a Net Investment in a Foreign Operation | Amendment to the restriction on the entity that can hold hedging instruments | Removes the restriction that the hedging instrument in a hedge of a net investment in a foreign operation cannot be held by the foreign operation that is itself being hedged. | Effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted. |



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