

Jenny Ng

From: Winnie Chan
Sent: Thursday, February 13, 2014 9:57 AM
To: Jenny Ng
Subject: FW: HKICPA Invitation to Comment on IASB Exposure Draft of Annual Improvements to IFRSs 2012 to 2014 Cycle (Due 14 February 2014)

From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Tuesday, February 11, 2014 7:50 AM
To: Simon Riley
Cc: Committee-FRSC; Winnie Chan; Ambrose Wong; LIAA
Subject: HKICPA Invitation to Comment on IASB Exposure Draft of Annual Improvements to IFRSs 2012 to 2014 Cycle (Due 14 February 2014)

Dear Simon,

HKICPA Invitation to Comment on IASB Exposure Draft of Annual Improvements to IFRSs 2012 to 2014 Cycle (Due 14 February 2014)

Thank you for the HKICPA letter dated 2 January 2014 on the subject matter addressed to our Mr. David Graham, Chief Regulatory Officer and Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

The Exposure Draft of Annual Improvements to IFRS 2012 to 2014 Cycle would be the 7th batch of amendments issued under the annual improvement process, which is designed to make necessary, but non-urgent, amendments to IFRSs. Whilst it is encouraging to note that for this batch, the exposure proposes only amendments to 4 standards (unlike previous batches), such frequent updating of accounting standards does create complexity and further investment in technical resources by all those using IFRS.

I have the following comments on each of the proposals:

a) **First proposed amendment: IFRS 5 Non-current Assets held for Sale and Discontinued Operations: change of disposed method**

It is my understanding that the IASB received a request (not from Hong Kong) to clarify the accounting for a change in a disposal plan from a plan to sell a division to a plan to spin off a division and distribute a dividend in kind to its shareholders. Paragraph 26 of IFRS 5 was interpreted by some but not all as requiring this change to be considered as a change to a plan of sale that would be accounted for in accordance with paragraphs 26–29 of IFRS 5.

Paragraphs 26 to 29 of IFRS 5 require an entity to measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- (a) Its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale; and
- (b) Its recoverable amount at the date of the subsequent decision not to sell.

The entity should then make any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss.

The IASB observed that IFRIC 17 Distribution of Non-cash Assets to Owners amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for held-for-distribution classification. However, this amendment did not provide guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), or when held-for-distribution accounting is discontinued. The IASB noted that paragraphs 26–29 of IFRS 5 should have been considered for amendment by IFRIC 17 and the fact that they were not amended at the time was an oversight.

The IASB observed that the current guidance in IFRS 5 could be read in a way that a change from a plan to sell a non-current asset (or disposal group) to a plan to distribute a non-current asset (or disposal group) automatically results in a change to a plan of sale and that the measurement guidance in paragraphs 27–29 should be applied. The IASB observed that paragraphs 27–29 do not provide guidance in circumstances in which a disposal group reclassifies an asset (or disposal group) directly from held-for-sale classification to held-for-distribution classification.

To address the lack of guidance in IFRS 5 when an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution (or vice versa) the IASB proposes to state that such a reclassification **shall not** be treated as a change to a plan of sale (or distribution) and an entity shall not follow the guidance in paragraphs 26–29 in IFRS 5 to account for this change. When an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution (or vice versa), the entity shall continue to apply the classification, presentation and measurement requirements in this IFRS applicable to a non-current asset (or disposal group) that is classified as held for sale or as held for distribution. To address the lack of guidance in circumstances in which an entity no longer meets the criteria for held for distribution (without meeting the held-for-sale criteria), the IASB proposes that an entity should cease held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when ceasing to meet the held-for-sale criteria.

I support the amendment, but believe that the proposed amendments should be applied retrospectively (instead of prospectively as proposed) as the relevant information should be available resulting in the benefit of having comparable information.

b) Second proposed amendment: IFRS 7 Financial Instruments – Disclosures: servicing contracts

It is my understanding that the IASB has proposed to amend IFRS 7 to clarify that servicing arrangements are generally in the scope of IFRS disclosures on continuing involvement in transferred financial assets that are derecognized in their entirety. In this regard, a servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset. However, one should take note that the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself sufficient to be considered “continuing involvement”. This is because, the activity of passing through cash flows does not in itself constitute an interest in the future performance of the transferred financial asset (proposed amendments to paragraph B30 of IFRS7).

I support the amendment and agrees with the prospective application.

c) Third proposed amendment: IFRS 7 Financial Instruments – Disclosure: Applicability of the amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements

It is my understanding that amendments to IFRS 7 are proposed to remove uncertainty as to whether the disclosure requirements on offsetting financial assets and financial liabilities (effective for periods beginning on or after 1 January 2013) should be included in condensed interim financial statements, and if so, whether in all condensed interim financial statements after 1 January 2013 or only in the first year. The ED proposes to clarify that offsetting disclosures are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34 Interim Financial Reporting,

I support the amendment and also the retrospective application.

d) Fourth proposed amendment: IAS 19 Employee Benefits: Discount rate: regional market issue

The IASB was asked to clarify the requirements of IAS 19 Employee Benefits to determine the discount rate in a regional market sharing the same currency (for example, the Eurozone). The issue arose because some think that the basket of high quality corporate bonds should be determined at a country level, and not at a currency level, because paragraph 83 of IAS 19 states that in countries in which there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds shall be used. The IASB noted that paragraph 83 of IAS 19 states that the currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations. The IASB now proposes to amend paragraph 83 of IAS 19 through the Annual Improvements process in order to clarify that the high quality corporate bonds used to estimate the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at a currency level.

In this regard, I note that IFRIC has recently also considered the topic of discount rate and consider against issuing additional guidance as the subject would be too broad for it to be address in an efficient manner.

<http://www.ifrs.org/Current-Projects/IASB-Projects/Employee-Benefits-Discount-Rate/Pages/Project-summary.aspx>

I would recommend that the proposed amendment be further discussed at the HKICPA FRSC.

e) Fifth proposed amendment: IAS 34 Interim Financial Reporting: Disclosure of information "elsewhere in the interim report"

The proposed amendment is to clarify the requirements if information required by IAS 34 is presented elsewhere within the interim financial report but outside the interim financial statements, such information would be required to be incorporated by way of a cross-reference from the interim financial statements to other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

I support the amendment and is of view that this will improve interim financial reporting and result in more useful information to users. I also agree with the retrospectively application in accordance with IAS 8.

Should you require any further clarification, please let me know.

Kind regards,
Steve

Steve Ong, FCA, FCPA
Senior Vice President, Head of Accounting Affairs (Listing Division)
HKEx