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

MEMBERS' HANDBOOK

Update No. 93

(Issued 30 September 2010)

Handbook Improvements only

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Insert the revised pages i, iii and iv. Discard the replaced pages i, iii and iv.	Revised contents pages

Amendments to the *Preface*, HK(SIC) Interpretations and *Glossary* were previously set out in the Appendix as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2010 in the relevant affected documents, for greater clarity.

Reference to HKAS/HKFRS contained in respective Illustrative Examples are amended to IAS/IFRS to comply with relevant requirements contained in the International Accounting Standards Board license agreement.

This update 93 covers 6 documents set out below.

PREFACE AND FRAMEWORK

Preface to Hong Kong Financial Reporting Standards	Replace the Preface with revised Preface	Amendments due to - HKAS 1 (Revised)

HONG KONG (SIC) INTERPRETATIONS (HK(SIC)-Int)

HK(SIC)-Int 15 *Operating Leases - Incentives*	Replace the Interpretation with revised Interpretation	Amendments due to - HKAS 1 (Revised)
HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Replace the Interpretation with revised Interpretation	Amendments due to - Editorial corrections to comply with IASB license agreement

HK(SIC)-Int 31 *Revenue – Barter Transactions involving Advertising Services*	Replace the Interpretation with revised Interpretation	Amendments due to - Editorial corrections to comply with IASB license agreement
HK(SIC)-Int 32 *Intangible Assets – Web Site Costs*	Replace the Interpretation with revised Interpretation	Amendments due to - HKAS 1 (Revised) - Editorial corrections to comply with IASB license agreement

GLOSSARY OF TERMS

Glossary of Terms Relating to Hong Kong Financial Reporting Standards	Replace the Glossary with revised Glossary	Revised Glossary

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

MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to September 2010)

ACCOUNTING GUIDELINES (AG)

ACCOUNTING BULLETINS (AB)

Effective upon issue

Preface to Hong Kong Financial Reporting Standards

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CONTENTS

PREFACE TO HONG KONG FINANCIAL REPORTING STANDARDS

Preface to Hong Kong Financial Reporting Standards

This Preface is issued to set out the objectives and due process of the Council of the Hong Kong Institute of Certified Public Accountants (HKICPA) (hereafter referred as the "Council") in respect of setting Hong Kong Financial Reporting Standards (HKFRSs) and to explain the scope, authority and timing of application of HKFRSs. For the purpose of this Preface, the term "Hong Kong Financial Reporting Standards" includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations approved by Council and currently in issue. It also sets out the relationship between HKFRSs and International Financial Reporting Standards (IFRSs) and the scope and authority of Accounting Guidelines and Accounting Bulletins. The Preface supersedes the Preface revised in October 2004. This Preface does not apply to entities that fulfill the criteria for reporting under the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) and choose to apply the SME-FRF and SME-FRS. This Preface therefore does not address the due process for setting SME-FRF & SME-FRS.

Introduction

1 Pursuant to section 18A of the Professional Accountants Ordinance (Chapter 50), Council may, in relation to the practice of accountancy, issue or specify any standards of accounting practices required to be observed, maintained or otherwise applied by members of the HKICPA. Approval of HKFRSs and related documents, such as the *Framework for the Preparation and Presentation of Financial Statements (Framework)*, exposure drafts, and other discussion documents, is the responsibility of Council.

2 Council has mandated the Financial Reporting Standards Committee (FRSC) to develop financial reporting standards to achieve convergence with IFRSs issued by the International Accounting Standards Board (IASB). Within this remit, Council permits the FRSC to work in whatever way it considers most effective and efficient and this may include forming advisory sub-committees or other forms of specialist advisory groups to give advice in preparing new and revised HKFRSs.

3 The FRSC is also responsible for providing timely guidance on newly identified financial reporting issues not specifically addressed in HKFRSs or issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop. It thus promotes the rigorous and uniform application of HKFRSs.

4 The HKICPA's Standards & Quality Accountability Board (SQAB) is responsible for reviewing and advising on the HKICPA's overall strategy, policies and processes for setting financial reporting standards. One of the SQAB's main objectives is to give advice to the FRSC on priorities and on major standard-setting projects.

Objectives of Council

5 In 2001, Council adopted the policy of achieving convergence of HKFRSs with IFRSs. Council's objectives in this respect are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable financial reporting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the capital markets and other users of the information to make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) to promote, support and enforce compliance with those standards by members of the HKICPA whether as preparers or auditors of financial information; and

(d) to maintain convergence of financial reporting standards with IFRSs.

Scope and authority of HKFRSs

6 Council achieves its objectives primarily by developing and publishing HKFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing HKFRSs, Council takes into consideration the need to maintain convergence of HKFRSs with IFRSs and consistency with the legal framework.

7 HKFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. HKFRSs are based on the *Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the *Framework* is to facilitate the consistent and logical formulation of HKFRSs. The *Framework* also provides a basis for the use of judgement in resolving accounting issues.

8 HKFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or in other forms. They include organisations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. Although HKFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate.

9 HKFRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

10 A complete set of financial statements includes a ~~balance sheet~~statement of financial position, ~~an income statement~~a statement of comprehensive income, a statement ~~showing either all~~ of changes in equity ~~or changes in equity other than those arising from capital transactions with owners and distributions to owners~~, a statement of cash flows~~ statement~~, and accounting policies and explanatory notes. When a separate income statement is presented in accordance with HKAS 1 *Presentation of Financial Statements* (as revised in 2007), it is part of that complete set. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, an entity may provide less information in its interim financial statements than in its annual financial statements. HKAS 34 *Interim Financial Reporting* prescribes the minimum content of complete or condensed financial statements for an interim period. The term 'financial statements' includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

11 In some cases, HKFRSs permit different treatments for given transactions and events. Usually, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial statements of an entity may appropriately be described as being prepared in accordance with HKFRSs whether they use the benchmark treatment or the allowed alternative treatment.

12 The objective of setting HKFRSs is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, those transactions and events for which HKFRSs permit a choice of accounting treatment will be reconsidered and will continue to be reconsidered, with the objective of reducing the number of those choices.

13 Statements approved by Council include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

14 Interpretations of HKFRSs are to give authoritative guidance on newly identified financial reporting issues not specifically addressed in HKFRSs or issues where unsatisfactory or conflicting interpretations have developed or seem likely to develop in the absence of such guidance.

15 Entities shall apply interpretations if their financial statements are described as being prepared in accordance with HKFRSs (see paragraph ~~14~~16 of HKAS 1 *Presentation of Financial Statements (as revised in 2007)*).

16 Interpretations apply to current and future reporting periods from the date of issue or other specified effective date. Transitional provisions that apply on initial application of an interpretation are specified in the interpretation.

17 An interpretation becomes inoperative and is withdrawn when a HKFRS or other authoritative document issued by Council that overrides or confirms a previously issued interpretation becomes effective. Those interpretations that would be affected by an authoritative HKICPA document are identified in the Exposure Draft of that document.

18 HKAS 1(as revised in 2007) includes the following requirement:

> "An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe ~~F~~financial statements ~~shall not be described~~ as complying with HKFRSs unless they comply with all the requirements of HKFRSs. "

This requirement extends to HKFRSs currently in issue.

19 Any limitation of the scope of a HKFRS is made clear in the standard.

Obligation for members of the HKICPA to observe HKFRSs or justify departures

20 Council is committed to promoting and supporting compliance with HKFRSs by members of the HKICPA whether as preparers or auditors of financial information.

21 Council therefore expects members of the HKICPA who assume responsibilities in respect of financial statements to observe HKFRSs.

22 Where this responsibility is evidenced by the association of members' names with such financial statements in the capacity of directors or other officers, the onus will be on them to ensure that the existence and purpose of HKFRSs are fully understood by non-member fellow directors and other officers. Members of the HKICPA should also use their best endeavours to ensure that HKFRSs are observed and that departures found to be necessary are adequately disclosed and explained in the financial statements.

23 Members of the HKICPA who act as auditors or reporting accountants should be in a position to justify departures, to the extent that their concurrence with the departures is stated or implied. They are not, however, required to refer in their report to departures with which they concur, provided that adequate disclosure has been made in the notes to the financial statements.

24 Council may enquire into apparent failures by members of the HKICPA to observe HKFRSs or to ensure adequate disclosure of departures there from.

Compliance with a basis or standard of accounting other than HKFRSs

25 Where a member of the HKICPA assumes responsibilities in respect of financial statements prepared under a basis or standard of accounting other than HKFRSs, the member should observe that other basis or standard of accounting. Accordingly, paragraphs 22 to 24 of this Preface shall apply, as if the references to HKFRSs in those paragraphs are to the other basis or standard of accounting, to members of the HKICPA who assume responsibilities in respect of financial statements prepared under a basis or standard of accounting other than HKFRSs, as they apply to members of the HKICPA who assume responsibility in respect of financial statements prepared under HKFRSs.

Coordination with international due process

26 Council understands that close co-ordination between the HKICPA's and IASB's due processes is important to the success of achieving convergence of HKFRSs with IFRSs. Council has aligned the HKICPA's due process, including the timing of issuing exposure drafts, standards and interpretations, as closely as possible with the IASB's due process as a result of its convergence policy. Council has published in June 2006 *Information Paper: Setting HKFRSs*[*] which outlines the step Council plans in supporting the development of IFRSs and the implementation of HKFRSs in Hong Kong. This Information Paper makes reference to the *Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard Setters* issued by the IASB in February 2006 which identifies a range of activities that the IASB and other accounting standard-setters, including the HKICPA, believe should be undertaken by them in the interests of facilitating the ongoing convergence with IFRSs. A copy of the Information Paper and a copy of the IASB Statement of Best Practice are attached as Appendix 1 and Appendix 2, respectively, to this Preface for reference.

Due process

27 HKFRSs are developed through a due process that involves members and member practices of the HKICPA, listed companies in Hong Kong, the stock exchange, regulatory and legal authorities, academics and other interested individuals and organisations.

[*] This Information Paper was published prior to the issue of this revised Preface to HKFRSs and, accordingly, its content does not take into account the changes made in this revised Preface to HKFRSs.

28 The FRSC consults the SQAB on major projects, agenda decisions and work priorities. The FRSC identifies potential agenda items for which timely guidance can be provided. Due process for projects may involve any or all of the following steps which are conducted by the FRSC except for noted otherwise:

(a) identifying and reviewing all the issues associated with an exposure draft or a draft interpretation issued by the IASB for possible adoption in Hong Kong or any other topics and considering the application of the *Framework* to the issues, if needed;

(b) studying pronouncements of the IASB and other standard setting bodies and accepted industry practices about the issues;

(c) consulting the SQAB about the advisability of adding the topic to the FRSC's agenda;

(d) forming an advisory group to give advice to the FRSC on the project;

(e) publishing for public comment a discussion document and, in the case of the IASB issuing a discussion document, issuing an invitation to comment in Hong Kong on that discussion document with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;

(f) publishing for public comment an exposure draft or a draft interpretation and, in the case of the IASB issuing an exposure draft or a draft interpretation, issuing an invitation to comment in Hong Kong on that IASB exposure draft or draft interpretation with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;

(g) publishing within an exposure draft a basis for conclusions;

(h) considering all comments received within the comment period on discussion documents, exposure drafts and draft interpretations and those received in response to the Hong Kong invitation to comment on the IASB documents and, when appropriate, preparing a comment letter to the IASB;

(i) following publication of the finalised IFRS or Interpretation of IFRS, considering the changes made, if any, by the IASB and adopting the finalised IFRS or Interpretation of IFRS in Hong Kong with the same effective date;

(j) approving a standard or an Interpretation, including that converged with the equivalent IFRS or Interpretation of IFRS, by Council; and

(k) publishing within a standard a basis for conclusions, if appropriate, explaining how the conclusions were reached and giving background information that may help users of HKFRSs to apply them in practice or, in the case of a standard that is converged with IFRS, publishing within the standard the IASB Basis for Conclusions with an explanation of the extent to which Council agrees with the IASB Basis for Conclusions so as to enable users to understand any changes made to the IFRS.

29 On occasion, the FRSC may consult and raise issues specific to Hong Kong proactively with the IASB.

Timing of application of HKFRSs

30 HKFRSs apply from a date specified in the document. New or revised HKFRSs set out transitional provisions to be applied on their initial application.

31 Council has no general policy of exempting transactions occurring before a specific date from the requirements of new HKFRSs. When financial statements are used to monitor compliance with contracts and agreements, a new HKFRS may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower's financial statements. Council believes the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future HKFRS, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial condition.

32 Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of a HKFRS, the requirements of any HKFRS that would be affected by proposals in an exposure draft remain in force.

Relationship with IFRSs

33 Although Council has a policy to achieve convergence of HKFRSs with IFRSs, Council may consider it appropriate to include additional disclosure requirements in a HKFRS or, in some exceptional cases, to deviate from an IFRS. Each HKFRS issued by Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRSs.

Scope and application of Accounting Guidelines

34 Accounting Guidelines are those guidelines that have been approved for issue by Council.

35 Accounting Guidelines have effect as guidance statements and indicators of best practice. They are persuasive in intent. Unlike HKFRSs, Accounting Guidelines are not mandatory on members of the HKICPA but are consistent with the purpose of HKFRSs in that they help define accounting practice in the particular area or sector to which they refer. Therefore, they should normally be followed and members of the HKICPA should be prepared to explain departures if called upon to do so.

Scope and application of Accounting Bulletins

36 Accounting Bulletins are informative publications issued by the FRSC on subjects of topical interest and are intended to assist members of the HKICPA or to stimulate debate on important accounting issues. They do not require the approval of Council and they do not have the same authority as either HKFRSs or Accounting Guidelines.

Information Paper

Setting Hong Kong Financial Reporting Standards

CPA
Hong Kong Institute of
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Comments on any part of this paper can be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INFORMATION PAPER

SETTING HONG KONG FINANCIAL REPORTING STANDARDS

Contents **Paragraph Numbers**

INTRODUCTION

1. Hong Kong Financial Reporting Standards ("HKFRSs")[1] were fully converged with International Financial Reporting Standards ("IFRSs") with effect from 1 January 2005. This convergence arose from a decision by the Council of the Hong Kong Institute of Certified Public Accountants ("Council") in 2001, after broad discussion with interested parties. With the international convergence programme fully in place following the removal of a legal impediment through the amendment to the Companies Ordinance ("CO") in 2005, and the Statements of Standard Accounting Practice superseded, Council has taken the view that the end of the first phase of the convergence programme is an appropriate time to take stock.

2. In converging with IFRSs, Hong Kong stands with other key capital markets such as Europe. In all, more than 100 countries have converged with IFRSs for all or some companies or are in the process of doing so. Key jurisdictions that have a convergence programme in place but have not completed their convergence include the United States (where the IASB and the US Financial Accounting Standards Board are working to align IFRSs and US GAAP), Canada (which plans to require listed companies to use IFRSs within five years) and Japan (which has a joint programme for convergence with the IASB). Further, Mainland China recently released its Chinese Accounting Standards System that brings about substantial convergence with IFRSs from 2007 for listed companies.

3. In setting its convergence policy in 2001, Council was aware that HKFRSs that were to be converged with IFRSs would be more exacting than necessary for many smaller companies required to report under the CO. Accordingly, Council decided to develop reporting requirements for Small and Medium-sized Entities ("SMEs") that would better meet the needs of users of SME financial statements. This decision resulted in Council releasing the SME Financial Reporting Framework and Financial Reporting Standard ("SME-FRF & FRS") in August 2005 and effective for reporting periods starting on or after 1 January 2005.

4. Concurrently with the developments at the Institute, there have been legislative developments. Since March 2002, the Joint Government/HKICPA Working Group to Review the Accounting and Auditing Provisions of the Companies Ordinance ("JWG") has been reviewing the relevant provisions of the CO, including the Tenth Schedule. The Tenth Schedule presently comprises a detailed list of disclosure requirements that were first developed in an era before the Institute had started to promulgate accounting standards[2]. While the Tenth Schedule has been amended over the years, it has not been able to keep pace with the very significant developments in financial reporting culminating in the issuance of fully-converged HKFRSs. HKFRSs now contain an extensive set of the recognition, measurement and disclosure requirements expected in modern financial statements. Companies are required to comply with HKFRSs, including their disclosure requirements, by virtue of sections 123 and 126 of the CO requiring financial statements to give a true and fair view or receive a qualified audit opinion. As a consequence of these developments, there is a perception that most of the items on the detailed list of disclosures in the Tenth Schedule are either redundant or outdated.

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[1] HKFRSs comprise all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Hong Kong Interpretations approved by the Council of the Hong Kong Institute of Certified Public Accountants.

[2] References in this paper to standards are to be read broadly as including interpretations.

5. Against this background, the JWG has recommended the repeal of the Tenth Schedule in its present form. One significant benefit of removing the overwhelming majority of the financial reporting disclosure requirements from the Tenth Schedule is that the existing potential for differences between the Tenth Schedule and HKFRSs will disappear. Further, it will be easier to amend HKFRSs than the CO to take account of constantly evolving financial reporting, as HKFRSs are non-statutory standards. The JWG also recommends the retention of a small number of items in a modernised version of the Tenth Schedule regarding disclosures with a significant public interest or corporate governance dimension, such as auditors' remuneration, which are not presently required in HKFRSs. Other items proposed to be included in the modernised Tenth Schedule, which have no equivalent in HKFRS, include the aggregate amount of any outstanding loans to directors and employees to acquire shares in their employing company made under the authority of sections 47C(4)(b) and (c) of the CO and information regarding a company's ultimate parent undertaking as is currently required under section 129A of the CO.

6. With full convergence with IFRSs achieved, Council determined that the second phase of its convergence programme should address the roles it should perform now that the converged standards are in place. These roles include maintaining the convergence of its process and product, supporting the effective implementation of the converged standards and facilitating the transmission of stakeholders' comments and concerns to the international standard setters.

7. Council views its future standard-setting role as including being a trusted and effective conduit between the Hong Kong reporting community and the IASB. In this role, Council proposes to work with stakeholders to identify issues and then to transmit those issues to the IASB. Council will also seek ways to improve the general understanding and application of HKFRSs as a basis for supporting Hong Kong's position as an international financial centre.

8. This Paper is structured as follows. Phase I outlines the existing structure and processes in Hong Kong, while Phase II outlines the steps Council plans in supporting the development of IFRSs and the implementation of HKFRSs in Hong Kong.

9. Council intends to issue further Information Papers to address the following standard-setting issues:

   a. whether Council should set financial reporting standards for public sector and not-for-profit entities; and

   b. the framework and process for the maintenance and update of the SME-FRF & FRS.

PHASE I: PRESENT STRUCTURE AND PROCESSES

10. The standard-setting structure and processes is summarised in the Preface to Hong Kong Financial Reporting Standards ("the Preface"). Firstly, the Preface notes Council's role as the statutory financial reporting standard setter as follows:

"1. Pursuant to section 18A of the Professional Accountants Ordinance (Chapter 50), Council may, in relation to the practice of accountancy, issue or specify any standards of accounting practices required to be observed, maintained or otherwise applied by members of the HKICPA. Approval of HKFRSs and related documents, such as the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*), exposure drafts, and other discussion documents, is the responsibility of Council."

11. The Preface then identifies the structures Council has established for the standard-setting process and its oversight:

"2. Council has mandated the Financial Accounting Standards Committee (FASC)[3] to develop accounting standards to achieve convergence with the IFRSs issued by the International Accounting Standards Board (IASB). Within this remit, Council permits the FASC to work in whatever way it considers most effective and efficient and this may include forming advisory sub-committees or other forms of specialist advisory groups to give advice in preparing new and revised HKFRSs."

…….

"4. The HKICPA's Standard-Setting Steering Board (SSSB) is responsible for reviewing and advising on the HKICPA's overall strategy, policies and processes for setting accounting standards. One of the SSSB's main objectives is to give advice to the FASC on priorities and on major standard-setting projects."

…….

"31. Although Council has a policy to achieve convergence of HKFRSs with IFRSs, Council may consider it appropriate to include additional disclosure requirements in a HKFRS or, in some exceptional cases, to deviate from an IFRS. Each HKFRS issued by Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRSs."

12. The SSSB's terms of reference in relation to financial reporting standards require it to:

a. review from time to time the Institute's overall strategy, policies and processes in respect of setting financial reporting standards, taking into account, when relevant, factors such as:

   i. the need to attain or maintain international comparability both in the standards applicable and in the processes applied in setting those standards;

3 Since the Preface was released, the Financial Accounting Standards Committee (FASC) has been reconstituted as the Financial Reporting Standards Committee (FRSC).

ii. the need to consult with stakeholders in the standards in Hong Kong and relevant professional and standard-setting bodies internationally;

iii. the need to ensure adequate publicity and stakeholders' access to information on the Institute's overall strategy, policies and processes in respect of setting standards; and

iv. the need to have regard to the legislative and regulatory framework in Hong Kong;

b. make recommendations to Council after consulting with the Financial Reporting Standards Committee; and

c. identify emerging issues and to give advice on agenda decisions and work priorities.

13. The SSSB meets once or twice a year to receive reports on all standard-setting activities and to address other issues as they arise. Council has requested the SSSB to review its Terms of Reference at its next meeting and, in doing so, to take account of the completion of Phase 1 of the convergence programme.

14. The FRSC's terms of reference require it to:

a. prepare, in accordance with the due process approved by Council, new and revised Accounting Standards, Interpretations and accounting guidance for adoption by Council, taking into consideration the need to achieve convergence, as far as practicable, with International Financial Reporting Standards;

b. develop and issue Accounting Bulletins and Discussion Papers to provide information and/or guidance to members or to stimulate debate on important accounting issues;

c. advise Council in connection with legislation, regulations and other matters directly related to accounting, financial reporting and international convergence;

d. gather and communicate information relating to financial reporting between stakeholders in Hong Kong and the IASB;

e. undertake research work for financial reporting projects committed by Council;

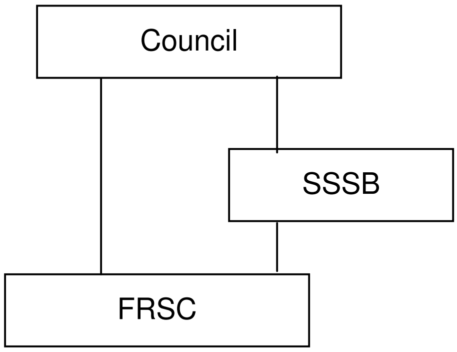
f. develop comments on the consultative documents issued by the IASB and other consultative documents relating to financial reporting for consideration by Council;

g. identify issues that might require interpretations and request the IFRIC or the IASB to address the issues and, when needed, develop local interpretations for adoption by Council; and

h. make Council or other relevant Committees aware of any particular educational needs and, when needed, assist in preparing educational materials.

15. The FRSC meets every month and also addresses emerging issues between meetings. To enable interested parties to follow its activities, it publishes a summary of each meeting. Current standard-setting activities are also summarised in the Institute's TechWatch summary of activities and events.

16. The relationship between the bodies identified above can be illustrated as follows.



17. In adopting its convergence policy, Council was aware that it needed to take a different approach to the appointment of members of the SSSB and the FRSC. One effect of the convergence programme is that Council has transferred the responsibility for detailed oversight and setting of HKFRSs to an international body operating within an extensive oversight structure. By stepping back from the role of primary standard setter, Council took the view that membership of the SSSB and FRSC should be broadened to ensure that due process was followed and that international convergence was maintained for the benefit of Hong Kong as a major financial centre. This decision had regard to the recommendations by the Standing Committee on Company Law Reform in the Consultation Paper on Phase I of the Corporate Governance Review that the membership of the then Financial Accounting Standards Committee should be broadened to include the representatives of stakeholders affected by financial statements. This broadening of membership and stepping back from the role of primary standard setter is the basis for Council's decision that an oversight body for the setting of HKFRSs separate from the Institute has no meaningful role and therefore is not required.

18. In appointing members to the SSSB and the FRSC, Council considers the views of existing SSSB and FRSC members and seeks comments and nominations from other interested parties. It seeks to maintain a balance between preparers, auditors and users of financial statements and the broader reporting community. This breadth of membership reflects the fact that financial reporting standards are a matter for the Hong Kong business community and that the impact of HKFRSs is not limited to certified public accountants that are preparers or auditors of financial statements. HKFRSs affect users of financial statements including regulators, preparers and other users who may not be certified public accountants. The following table illustrates the diversity of membership of the SSSB and FRSC in 2006.

Category	SSSB	FRSC
Big 4 firms	1	5*
Small and medium–sized practices	1	4
Professional accountants in business	3*	2
Representatives of regulators, government and, industry bodies and academics	7	9
TOTAL	12	20
Percentage of members nominated by relevant stakeholders	58%	45%

* The Chairmen of the SSSB and FRSC are appointed without regard for their background.

19. The current standard-setting due process is described in the Preface as follows.

"23. HKFRSs and Interpretations of HKFRSs are developed through a due process that involves members and member practices of the HKICPA, listed companies in Hong Kong, the stock exchange, regulatory and legal authorities, academics and other interested individuals and organisations."

"24. The FASC consults the SSSB on major projects, agenda decisions and work priorities. The UII[4] assists the FASC in identifying potential agenda items for which timely guidance can be provided. Due process for projects normally, but not necessarily, involves the following steps:

a. the staff are asked to identify and review all the issues associated with an exposure draft or a draft interpretation issued by the IASB for possible adoption in Hong Kong or any other topics and to consider the application of the Framework to the issues, if needed;

b. study of pronouncements of the IASB and other standard-setting bodies and accepted industry practices about the issues;

c. consulting the SSSB about the advisability of adding the topic to the FASC or UII's agenda;

d. formation of an advisory group to give advice to the FASC on the project;

e. publishing for public comment a discussion document;

f. publishing for public comment an exposure draft or a draft interpretation;

g. publishing within an exposure draft a basis for conclusions;

[4] Council approved the proposal from the FRSC that urgent issues and interpretations are best addressed by the FRSC itself rather than a sub-committee and disbanded the UII in June 2005.

h. consideration of all comments received within the comment period on discussion documents, exposure drafts and draft interpretations and, when appropriate, preparing a comment letter to the IASB;

i. following publication of the finalised IFRS or Interpretation of IFRS, consideration of the changes made, if any, by the IASB;

j. approval of a standard or an Interpretation by Council; and

k. publishing within a standard a basis for conclusions, if appropriate, explaining how the conclusions were reached and to give background information that may help users of HKFRSs to apply them in practice."

"24A. On occasion, the FASC may consult and raise issues specific to Hong Kong proactively with the IASB."

20. Council has requested the FRSC to review the Preface to take account of the completion of Phase I of the convergence programme as, in practice, the short comment periods on Exposure Drafts allowed by the IASB and the IFRIC (generally 120 days for a Standard and 60 days for an Interpretation), has resulted in a curtailed due process commencing at step (f). Exposure Drafts of changes to IFRSs are usually issued as Invitations to Comment within days of the IASB issuing an Exposure Draft or an Invitation to Comment, to allow the maximum amount of time for stakeholders to develop their views. Standards and amendments to Standards are generally considered by the FRSC within a month after being issued by the IASB, to enable timely consideration and forwarding to Council for approval. The present convergence policy requires an HKFRS to have the same effective date as the equivalent IFRS.

21. Council's present objective is to maintain convergence with IFRSs without losing the ability within Hong Kong to contribute to the international standard-setting process. Council's aim is to ensure that issues of concern to Hong Kong are understood by the IASB and addressed appropriately in IFRSs. Council's focus is to ensure that the IASB develops international standards of as high a quality as possible so that HKFRSs that are converged with IFRSs are automatically of high quality.

22. While considering that HKFRSs should apply to all general purpose financial statements giving a true and fair view, Council does not take the view that HKFRSs are necessarily appropriate for all purposes. For example, Council took note of the special reporting needs of small and medium-sized entities ("SMEs") in issuing the SME Financial Reporting Framework and Financial Reporting Standard (SME-FRF & FRS) in 2005. Further, Council is aware that prudential and other regulators may require regulated entities to submit information to support regulatory objectives that are additional to, and even measured or recognised on different bases from, that provided in general purpose financial statements. Issues related to the oversight and setting of financial reporting standards for SMEs will be addressed in a separate paper.

PHASE II: SUPPORTING IMPLEMENTATION

23. Supporting implementation of HKFRSs takes a number of forms. First, HKFRSs need to remain converged with IFRSs through both product and process. Second, Hong Kong needs to be positioned to ensure that issues of importance to Hong Kong are addressed by the IASB. This requires participation in international processes at as many levels as considered appropriate.

24. The IASB has recently released a Statement of Best Practice: *Working Relationships between the IASB and other Accounting Standard-Setters*. Key points in this Statement support Council's aims in Phase II of the international convergence programme and are discussed in the following sections. In particular, the Statement expects Accounting Standard-Setters such as the Institute to:

    a. play a key part in the development of IFRSs by providing a conduit between the IASB and stakeholders in Hong Kong;

    b. assist stakeholders in understanding proposals for developments in IFRSs and encourage stakeholders to comment on IASB consultative documents both to the Institute and to the IASB;

    c. prepare its own comments on IASB consultative documents;

    d. monitor the work of the IASB so that conceptual differences of opinion can be conveyed to the IASB as early as possible in the life of a project;

    e. work with other Accounting Standard Setters on issues of common interest; and

    f. consider opportunities provided by the IASB to participate in IASB projects or to provide staff assistance on a specific IASB project.

Convergence of HKFRSs with IFRSs – product convergence

25. Product convergence refers to the convergence of the content of each HKFRS with the equivalent IFRS. Product convergence of HKFRSs with IFRSs is an "all or nothing" concept. IAS 1 *Presentation of Financial Statements*, paragraph 14, states that "financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs". It follows that the only changes to IFRSs that are generally possible while maintaining convergence are limited to mandating additional disclosures or removing options in IFRSs. Changes to recognition or measurement requirements usually result in a failure of convergence.

26. In setting financial reporting standards for Hong Kong as an international financial centre, Council took note of the many reasons put forward for converging with IFRSs. These reasons include:

    a. responding to the increasingly global business environment and the consequent need for entities to be able to present financial statements that are comparable with those in other jurisdictions;

    b. reducing entities' costs of capital by ensuring that suppliers of funds and purchasers of goods and services understand the financial position and performance of the entity regardless of location of the parties to any transaction;

c. reducing financial analysis costs through analysts not having to restate information to a common basis and only needing to understand a single set of financial reporting standards;

d. reducing financial reporting costs for companies operating in more than one jurisdiction;

e. improving the quality of global financial reporting; and

f. reducing the cost of setting standards and ensuring that the skills available to develop and apply financial reporting standards are utilised efficiently.

27. Some hold the view that jurisdictions should acknowledge that IFRSs are not perfect and that only the 'best' standards should be adopted by a jurisdiction. Those who make this comment rarely note that the suite of standards in their home jurisdiction is also less than perfect. Council has taken the view that the benefits of convergence globally and for Hong Kong as a major financial centre outweigh the (arguably) better financial reporting that would result from selecting the 'best' standards from a range of jurisdictions. Council is also aware that such a process of standard selection would produce standards that are likely to be inconsistent and incomplete and reflect the biases of the group making the selection rather than being based on a consistent framework.

28. Some have suggested that the convergence programme be amended to give entities more time to understand a new standard before they are required to apply it. The compliance requirement in IAS 1 means that entities can only claim compliance with IFRSs if they comply with all standards that are effective at the date of preparing the financial statements. If Council were to extend the application date for any HKFRS equivalent to an IFRS, users of financial statements could no longer assume convergence of HKFRSs with IFRSs, thus losing the benefits of the convergence programme.

29. Council is aware that some do not support the convergence of HKFRSs with IFRSs for reasons that include:

a. the adoption of an external set of financial reporting standards is not consistent with the legal autonomy of a jurisdiction;

b. the international standard setter cannot take account of the unique circumstances of each jurisdiction. An example of this in Hong Kong is the special circumstances surrounding land leases; and

c. private companies do not anticipate any benefits from international convergence and are impacted by increased costs of preparing financial statements.

30. Council proposes to maintain the convergence of HKFRSs with IFRSs while retaining the power to set financial reporting standards in Hong Kong at this time. Although some jurisdictions are adopting IFRSs, Council considers that Hong Kong should retain the flexibility to set different standards for different groups such as SMEs and the public sector. As an independent, albeit converged, standard setter, Council anticipates that it will retain the skills and ability to influence the future direction of IFRSs.

31. Council is aware that many smaller entities do not perceive benefits in the convergence of HKFRSs with IFRSs. This was one impetus for the development of the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & FRS). The only way to avoid unlisted companies having to apply all the requirements of HKFRSs would be to extend the SME-FRF & FRS or to establish a framework and suite of financial reporting standards for larger unlisted companies. Council anticipates that the IASB's SME project will reduce the reporting burden for many unlisted entities. Therefore, Council will carefully examine the IASB's proposals as they emerge with the aim of reducing reporting requirements, where practicable, while minimising any difficulties arising from having multiple sets of standards.

Convergence of HKFRSs with IFRSs – process convergence

32. Process convergence relates to the need to align 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 IASB. The benefits of aligning the timing of the issuance of Exposure Drafts, Standards and Interpretations include:

    a. stakeholders in Hong Kong are able to comment on international Exposure Drafts while they are still under consideration by the IASB, thus enabling the views of Hong Kong stakeholders to be heard before proposals are finalised; and

    b. process convergence is necessary to ensure product convergence. If a Standard or Interpretation is issued in Hong Kong after it is issued internationally, entities in Hong Kong may not be able to apply that Standard or Interpretation until after the international application date.

33. Council has aligned the Institute's due process with the international due process as a result of its convergence policy. Probably the greatest concern with the existing due process is the short time available for stakeholders to comment on Exposure Drafts. Council notes that stakeholders would be better positioned to comment in the time available if they were to follow the debate as issues develop so that they understand the issue before an Exposure Draft is issued. This issue is discussed further below.

34. As Council attempts to reflect the views of its constituency in the comments it sends on IASB Exposure Drafts, the comment period in Hong Kong is constrained by the IASB comment period (usually 120 days). Maintaining convergence also limits the potential steps in the due process (such as the preparation of a discussion document) to the documents issued by the IASB.

35. Council notes that its due process also needs to take account of the development of domestic requirements that are outside the convergence programme. The most notable domestic development in recent years is the issuance of the SME-FRF & FRS. Council has asked the FRSC to consider separating its published due process between international convergence issues and domestic financial reporting issues (although developing domestic Standards or Interpretations other than for SMEs is not expected). Clearly identifying a domestic due process would clarify that an extended due process with additional consultations may be appropriate for major domestic projects, such as that followed in developing the SME-FRF & FRS.

Encouraging stakeholder participation in the standard-setting process

36. Standard setters in many jurisdictions are experiencing reduced participation by stakeholders in the setting of financial reporting standards. Possible reasons for this apparent lack of interest include that stakeholders may consider that:

    a. there are too many requests for comments, and they do not have the time to participate;

    b. they do not have the skills to comment now that standards are complex;

    c. the comment period is too short;

    d. the standard setters have already made their decisions and commenting is a waste of time; and

    e. the standard setters will only listen to comments from major players such as regulators, large companies and accounting firms, so there is no point in other people commenting.

37. Standard setters are affected by the rapid rate of change as much as businesses. Even if a suite of standards were perfect at one point in time, those standards would have to be revised and new standards developed to address new and changing events and transactions. Add to that the need to improve standards by removing options, developing better treatments and addressing issues more specifically, and it becomes likely that financial reporting standards will continue to evolve. It is also the case that transactions are becoming increasingly complex as they seek to address more issues for the parties to the transaction. Complex transactions frequently require complex financial reporting treatments such as the separation into components of compound financial instruments.

38. Council is aware that some stakeholders are concerned about the amount of change in the last few years and notes that the rate of change associated with the final implementation of the international convergence programme is unlikely to continue. Now that convergence has been achieved, Council expects to only issue a few new Standards and Interpretations each year in its process of maintaining convergence.

39. Council is conscious that the short comment period on Exposure Drafts may make it difficult for some to participate in the consultation process. Because Exposure Drafts usually have a long gestation period, it is possible for stakeholders to follow the development of an issue through various media. For example, the IASB undertakes a number of steps to assist stakeholders to follow its standard-setting activities, including:

    a. holding all technical meetings in public to enable stakeholders to observe the IASB's deliberations;

    b. developing technological solutions such as web-casting meetings to reduce the need to travel to the IASB's meeting location to observe its meetings;

    c. providing summaries for observers on its website that identify how the IASB will be addressing each topic on the agenda for each meeting;

    d. providing summaries of each project on the IASB's active agenda; and

e. providing a report after each meeting describing the outcomes of that meeting.

However, Council is not aware of the extent to which stakeholders have the time or inclination to follow the IASB's deliberations in the lead up to the issuance of an Exposure Draft.

40. Those who are reluctant to comment on Exposure Drafts often feel that their practical input will not be appreciated. Standard setters are constantly seeking input from those stakeholders with the experience to see the practical ramifications of a proposal and make suggestions for improvements or explain why the proposals are impracticable. Further, regulators and practitioners do not have a detailed understanding of the practical impact of standards and standard setters rely on preparers to share their special expertise.

41. Although standard setters consider all the relevant issues that they can identify as part of the process of developing an exposure draft, this does not mean that standard setters are not prepared to reconsider the proposals in the exposure draft. An analysis of differences between exposure drafts and the resulting standards shows that a standard may be significantly different from the exposure draft because of comments that identify the inappropriateness or impracticability of the proposal. Indeed, there are cases where an exposure draft has not led to a standard or has led to further exposure because of the comments received.

42. If commenting on exposure drafts can affect the resulting standard, the issue becomes how to elicit comments from preparers and users of financial reporting standards that address the needs of standard setters. Standard setters are seeking informed comment from people who have considered the issues from both a theoretical perspective and a practical perspective. Theoretical issues include whether the proposals conform to the *Framework*, and whether they are a complete and consistent solution to the issue being addressed. Practical issues include whether the proposals can be followed by preparers, can be audited and provide more useful information than that previously provided, after considering the costs and benefits of the proposal. Standard setters also seek well-articulated reasons for the views expressed.

43. Council plans to devote more resources to explaining proposals to stakeholders during the development of financial reporting standards in order to hear their views and reflect their comments. Council will be considering, on a case-by-case basis:

a. assisting stakeholders in following the international debates in the lead up to an exposure draft by highlighting developments in key projects;

b. providing a summary of the key points of each exposure draft;

c. presenting seminars outlining and analysing the proposals in an exposure draft;

d. holding meetings or roundtables to hear views on the exposure draft;

e. establishing an advisory group to assist in explaining the exposure draft; and

f. discussing the proposals with key industry groups.

44. Council will be asking the FRSC to maintain its role as the interface between Hong Kong stakeholders and the IASB. Council will carefully consider a well-argued case

for resources necessary to develop additional services for stakeholders if such a case is presented by the FRSC.

Influencing international financial reporting activities

45. Council is very aware of the need to maintain a high standard-setting profile internationally. It is in the interests of all those using HKFRSs that Hong Kong is a well-respected participant in the development of IFRSs rather than blindly adopting IFRSs. A well-articulated concern about a proposal in an exposure draft or a provision of an international standard from a party respected internationally is more likely to receive attention from the IASB or the IFRIC than a poorly explained issue from an unknown party.

46. Hong Kong currently has a number of representatives in the international financial reporting arena, including representatives on :

    a. the IASB's oversight body, the IASCF;

    b. the IASB's Standards Advisory Council ("SAC");

    c. the IASB's Performance Reporting Working Group; and

    d. the IASB's SME Working Group.

47. The *Due Process Handbook for the IASB* was issued in April 2006 and describes six stages of standard-setting. Each of the stages is briefly discussed and opportunities for parties external to the IASB to participate in each stage are identified.

    a. *Setting the agenda*: the IASB selects agenda items from issues identified by staff or raised by stakeholders and consults with the SAC and financial reporting standard setters such as the FRSC. Stakeholders can participate by suggesting issues for the IASB to address, with reasons why the issue deserves attention. Suggestions can be sent directly to the IASB, or to the SAC or the FRSC for forwarding on to the IASB.

    b. *Project planning*: the IASB decides whether to conduct a project alone or jointly with another standard setter and may establish a working group. The IASB advertises working group vacancies, and membership of a working group gives input into the development of the project. Council monitors these vacancies and identifies potential members.

    c. *Development and publication of a discussion paper*: a discussion paper is normally issued on a major new topic. Stakeholders can follow the technical debate during the development stage by reading material provided by the IASB such as notes for observers and meeting summaries. If the IASB issues a discussion paper, it is still open to the direction it should take and the discussion paper provides an opportunity for stakeholders to explain to the IASB where they agree with its thinking and where they disagree and the reasons for their views. The FRSC seeks stakeholders' views on discussion papers for inclusion in Council's comments to the IASB.

    d. *Development and publication of an exposure draft*: the exposure draft is the IASB's main vehicle for public consultation. By the time of issuing an exposure draft, the IASB has considered the relevant issues in great detail. To be effective in changing a proposal, disagreements need to be based on carefully argued conceptual grounds, or detailed explanations of practical issues and their consequences, or a cost-benefit analysis. The FRSC seeks stakeholders' views on exposure drafts for inclusion in Council's comments to the IASB.

e. *Development and publication of a standard*: the IASB reviews the exposure draft in the light of comments received and posts developments on its website. The IASB may expose revised proposals for public comment where significant changes are made to the original proposals. In such cases, the FRSC seeks stakeholders' views on any invitations to comment for inclusion in Council's comments to the IASB.

f. *Procedures after a standard is issued*: IASB members and staff meet with interested parties to help understand unanticipated issues related to the practical implementation and potential impact of its proposals. The IASB may also initiate studies in the light of the review of the standard's application, changes in the financial reporting environment and comments from interested parties.

48. In addition to commenting during the IASB's due process, other ways in which Hong Kong can participate internationally and which Council is considering include:

a. continuing to send the SSSB chairman and/or the FRSC chairman to international meetings to provide personal representations of Hong Kong issues and concerns;

b. continuing to nominate appropriate individuals to IASB bodies, including the IASCF, the Standards Advisory Council, the IFRIC, working parties and project teams;

c. providing extensive and well-considered comments on all documents issued by the IASB. Comment letters are already sent on key issues, but further input from all stakeholders expanding the issues to be addressed is welcomed;

d. bringing issues that are of importance to Hong Kong to the attention of the IASB or the IFRIC, as is already done through formal and informal channels;

e. supporting the development of, and working with, regional bodies with a view to developing a "regional voice" to balance the views from Europe and North America;

f. conducting in-depth monitoring of the work programmes of the IASB and the IFRIC, with a view to advising the IASB of concerns while approaches to issues are being developed; and

g. inviting members of the IASB and its related bodies to Hong Kong. Council encourages and financially supports visits from IASB members.

49. For principles-based standards to work effectively, all stakeholders need to understand the purpose and content of the standards sufficiently for their purposes. The Institute provides a range of Continuing Professional Development activities and has arranged access for members to activities provided by other educational suppliers. Council acknowledges that the Institute has a part to play, but takes the

view that stakeholders need to take ultimate responsibility for their own education and the development of their knowledge and understanding.

Supporting the implementation of HKFRSs

50. Council has a number of roles with differing objectives in the implementation of HKFRSs:

a. *as standard setter*, Council must ensure that any implementation support does not inadvertently provide guidance that will be seen as official interpretations of HKFRSs and thus damage the convergence of HKFRSs with IFRSs;

b. *as provider of member services*, Council must ensure that its members are equipped to apply HKFRSs appropriately; and

c. *as regulator of its members*, Council must ensure that members that do not apply HKFRSs appropriately are subject to appropriate regulatory action.

51. The key to success in dealing with these varying roles is to provide members with sufficient education and training that they can rise to the challenges posed by principles-based standards. Principles-based standards require preparers and auditors to move from seeking directive rules to accepting that their role is now to understand transactions and then account for them by applying the relevant principles, requirements and guidance in the *Framework* and standards. Principles-based standards require users of financial statements to accept that if an entity's results are faithfully represented in the financial statements, the entity may show profits that are more volatile than under rules-based standards. That is, users of financial statements must accept that even in normal circumstances, a company's profits can move both up and down.

Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters

February 2006

Statement of Best Practice

Contents

1 Background

1.1 This Statement records an understanding between the International Accounting Standards Board[1] (IASB) and other accounting standard-setters.[2] It is particularly relevant to standard-setters in jurisdictions that have adopted or converged with International Financial Reporting Standards (IFRSs),[3] or are in the process of adopting or converging with IFRSs. It identifies a range of activities that the IASB and other accounting standard-setters believe should be undertaken by them in the interests of facilitating the ongoing adoption of or convergence with IFRSs.[4] Some accounting standard-setters may find it difficult to undertake certain of those activities with the resources at their disposal, but will use their best endeavours to do so.

1.2 Some of the activities are new or different from the way in which the IASB and other accounting standard-setters have operated in the past. Others are a confirmation of practices that are already being undertaken.

1.3 This Statement assumes that the ultimate aims of the IASB and other accounting standard-setters are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and

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1 This Statement also relates to the International Accounting Standards Committee (IASC) Foundation in respect of education.

2 The expression 'other accounting standard-setters' refers to organisations that have responsibility for setting accounting standards at a national level, including those whose responsibilities include but are broader than convergence with or adoption of IFRSs, and at an international level, specifically the International Public Sector Accounting Standards Board. It also includes those organisations that have responsibility for, and those with a direct role in facilitating, the setting of accounting standards across a number of countries in a region.

3 International Financial Reporting Standards (IFRSs) are defined as Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
(a) International Financial Reporting Standards;
(b) International Accounting Standards; and
(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). [IFRS 1 *First-time Adoption of International Financial Reporting Standards*, Appendix A]
However, where necessary to enhance readability, separate reference is made to Interpretations.

4 These activities are shown in italicised text.

comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

(d) to bring about convergence of national accounting standards and IFRSs to high quality solutions.[5]

1.4 This Statement is based on the premise that, in order to achieve the above aims for the benefit of constituents,[6] it is essential that the IASB and other accounting standard-setters work together in a spirit of openness and close co-operation. The activities identified in this Statement are important in building and maintaining the relationship between the IASB and other accounting standard-setters.

2 Communication

2.1 To achieve the objectives set out in paragraph 1.3, the IASB needs to establish and maintain strong communication links with its constituencies. However, because of the large number and wide variety of the IASB's constituents, the IASB is likely to have difficulty in communicating fully with all those constituencies. Accordingly, other accounting standard-setters have a role in communicating IASB activities and outputs to their constituents through educational and promotional activities, including publishing or distributing IASB consultative documents in their jurisdictions, and in both providing the IASB with feedback on these activities and outputs themselves and encouraging their constituents to provide feedback to the IASB.

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5 These are the objectives outlined in the IASC Foundation's Constitution at paragraph 2.

6 The prime constituents of the IASB and other accounting standard-setters include the users of financial reports (including securities analysts), listed companies and other issuers of securities, their auditors and regulators. In some countries, the constituents of national standard-setters also include other types of reporting entities, such as unlisted companies and not-for-profit entities in the public and private sectors, and their auditors, regulators and other users of that financial information.

2.2 *To facilitate the communication process, the IASB should ensure that its publications are made widely available on a timely basis and that its activities are regularly reported and updated in various media.*

Constituent feedback

2.3 *Other accounting standard-setters should encourage their constituents to comment on IASB consultative documents direct to the IASB as well as to themselves.*

2.4 Forms of communicating views other than comment letters are increasingly important in gathering views, including forums on specific issues. *Other accounting standard-setters should use these forums as a mechanism for encouraging their constituents to participate in the IASB's standard-setting process.* When resources permit, the IASB may be able to assist other accounting standard-setters by making personnel available to enhance the effectiveness of these local or regional forums.

2.5 Other accounting standard-setters can assist the IASB in identifying constituents who can be involved in round-table discussions and other forums and the issues of particular relevance to constituents.

2.6 Without limiting the direct communication of ideas to the IASB, other accounting standard-setters have a role in communicating the views and ideas of their constituents to the IASB through the consultation process—providing a focus for views. Other organisations, such as representative bodies with an interest in financial reporting, may also contribute to this process. *Other accounting standard-setters should make their own submissions to the IASB on consultative documents and should convey their views to the IASB rather than provide merely a synthesis of the views expressed by their constituents.*

Communication among other accounting standard-setters

2.7 *Other accounting standard-setters should also communicate with one another, particularly when there is an issue of common interest.* It would, for example, be helpful if standard-setters with a common problem requiring interpretation formulated a joint proposal for consideration by the IASB or the IFRIC.

2.8 Other accounting standard-setters working together should be able to develop a thorough understanding of issues raised by their constituents because they will have the relevant local knowledge and ready access to the constituents who raise the issues. By developing this understanding, standard-setters should be better able to work through and refine their issues for consideration by the IASB or the IFRIC.

Timing

2.9 *Although other accounting standard-setters acknowledge the IASB's discretion to set the appropriate comment period for consultative documents, the IASB should bear in mind the need for other accounting standard-setters to have enough time to prepare material that places the IASB documents in the national or regional context, to expose the IASB documents in their jurisdictions, to receive comment from their constituents and to formulate their own views with the benefit of constituents' comments.*[7] *Any additional material should be designed to help stimulate debate.*

2.10 The IASB cannot wait for the slowest of processes to be completed. Accordingly, other accounting standard-setters may need to streamline their processes to the extent possible, which may require them to devote increased resources to the processes. The time available to undertake those processes is the time between the publication of IASB proposals and the end of the IASB's comment period. Closely monitoring a developing Exposure Draft should facilitate the preparation of any contextual material in time for the comment period, although translation from English into other languages can often be undertaken only when the final text of an Exposure Draft is available.

Due process

2.11 Other accounting standard-setters are best placed to understand the needs of their domestic constituents. Thus they can:

(a) explain the work of the IASB to their constituents in an effective way; and

(b) explain the concerns of their constituents to the IASB.

7 Also see paragraph 5.3 about allowing sufficient time after a standard is issued or changed so that other accounting standard-setters can establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.

2.12 *The standard-setting environment that the IASB helps to create should be one that encourages critical analysis of the IASB's proposals, and provides an open and transparent standard-setting process.*[8] *Other accounting standard-setters should make the IASB aware of any major conceptual differences of opinion they have with a project as early as possible in the life of a project. This would require other accounting standard-setters to monitor closely the development of the project and the IASB to continue to communicate publicly information about the project that will facilitate this monitoring process, for example by maintaining on its public Website up-to-date project summaries for all of its major current projects.*

Work programme

2.13 The IASB's work programme is a subject on which it is particularly helpful for other accounting standard-setters to channel the views of constituents in a constructive manner. The IASB is unable to respond to every interested party's request to deal with a topic. *Other accounting standard-setters should therefore seek the views of their constituents on work programme priorities and collect and summarise them for consideration by the IASB. The IASB should give other accounting standard-setters the opportunity to contribute to the periodic reviews of its work programme both at its annual meeting with world standard-setters, and at regional meetings of standard-setters with IASB representatives.*

2.14 *In the interests of facilitating useful discussion about the IASB's work programme, the IASB should ensure that its constituents and other accounting standard-setters are kept informed of current developments by continuing to publish its quarterly technical plan.*

3 Project role

3.1 Direct involvement of other accounting standard-setters in the IASB's projects helps to ensure that a wide range of views and ideas is considered in the early stages of the development of a project.

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8 As noted in paragraph 1.2, some of the activities are a confirmation of practices that have been undertaken for some time. The IASC Foundation's Constitution and the IASB *Preface* outline a commitment to an open and credible process. The IASC Foundation's Handbook of Consultative Arrangements sets out the IASB's policies and procedures related to its due process.

3.2 *The IASB should, subject to the work being available, provide opportunities to other accounting standard-setters to be directly involved with IASB projects in the following ways:*

(a) involvement in a 'research project' alone, or, in partnership with a team of other standard-setters (either as a leader of the team or as team member), under the guidance of IASB staff and selected Board advisers.

(b) involvement of staff in a 'project team' on an active IASB project under the direction of the IASB directors.

Research projects

3.3 The IASB, in consultation with others, will identify topics it believes require research, including developing some general specifications for the project.

3.4 The IASB will select the lead researcher who will develop the detailed project plan for review by the staff and Board advisers and approval by the IASB. The plan will include information about:

(a) the project team

(b) the project timetable and milestones

(c) resource groups, if any.

3.5 The project team should comprise accounting standard-setters with a range of experience. This enables a wide group to be involved in the IASB's work, thereby gaining the benefit of a wide range of views and helping to spread acceptance of the IASB's work. Team members could be members of the boards or staff of accounting standard-setters. *All team members should be capable of contributing to the project.*

3.6 Board advisers will be appointed by the IASB for each project. The project team will consult IASB staff and Board advisers as necessary, particularly at crucial stages in the project and before documents are presented to the full Board for consideration.

3.7 The project team will manage the project including:

(a) identifying issues and conducting research

(b) identifying project milestones

(c) briefing the IASB as major tentative conclusions are reached.

The IASB will convey to the project team any concerns it has with the tentative directions/conclusions.

3.8 The Discussion Paper will almost always be intended to be the first step in the IASB's due process in the development of a standard on the topic. Therefore, the Discussion Paper will be published under the IASB's logo and will contain preliminary views:

(a) if they are to be the IASB's preliminary views, the conclusions will have to be discussed and agreed by the Board in public meetings; or

(b) the IASB may decide that the Discussion Paper will reflect the project team's views. If so, the IASB will review the entire draft Discussion Paper with the objective of ensuring that the analysis (i) is complete and (ii) will generate the feedback the IASB needs on the topic. The IASB will also discuss and decide in one or more public Board meetings the questions that it believes need to be asked in the invitation to comment.

3.9 The project team will analyse the responses to the invitation to comment as a basis for the next stage of the project. Comment letters will be made available to IASB members for their independent review and analysis.

3.10 The project team, advisory group and constituents generally will need to understand that there may be a lengthy interval between the time the Discussion Paper is completed and the IASB's formal decision to add the project to its active agenda. In particular, before making such an agenda decision, the IASB will need to consider a full agenda project proposal package.

3.11 Other accounting standard-setters are encouraged to conduct research or develop thinking on a topic that has not been identified by the IASB as a current priority, and then present the results of that work for consideration by the IASB and/or other accounting standard-setters. For there to be an expectation that those materials would be considered there would need to be some advance agreement both that the topic is worthy of consideration and that the IASB and/or other standard-setters have a common interest in the topic. In addition, the materials would need to be developed in the context of the IASB's conceptual framework.

Active projects

3.12 The IASB welcomes offers of staff assistance from other accounting standard-setters. To be effective, from both the IASB's perspective and that of the participating standard-setter, this involvement needs to be undertaken with a clear understanding of the staff member's role and responsibilities. In particular, the staff member would work under the direction of the IASB directors, would report to the project leader and would be expected to work as an independent member of the project team, not as a spokesman for his or her employer.

3.13 In addition to direct involvement in project work, other accounting standard-setters can interact with the IASB on specific projects in various ways, including written communication and meetings with staff and Board members.

Working groups

3.14 The IASB establishes working groups for some projects, and invites constituents to nominate candidates for membership of these groups. The working groups are a source of expert advice and ideas for the staff in progressing a particular project. *Accounting standard-setters may be able to assist in the process of making nominations to, and in facilitating the operations of, working groups by identifying and encouraging suitable individuals to nominate themselves and, if appointed, to liaise actively with those individuals and assist them when needed.*

4 Comment role on IASB consultative documents

4.1 The views of other accounting standard-setters can be a valuable source of independent thought in the development of IASB documents. *Other accounting standard-setters should provide comments to the IASB on consultative documents such as Exposure*

Drafts and Discussion Papers. If time does not permit board-level input, comment from staff of the standard-setter can be provided.

4.2 *If an accounting standard-setter is unable to comment on each consultative document, it should focus on those projects that are of particular importance to its constituents, or those on which that standard-setter believes it can best contribute.*

4.3 It may also be helpful for other accounting standard-setters to comment on other IASB documents, such as issues papers and draft Discussion Papers when they believe the IASB would benefit from their input at an early stage. However, it may not be practicable for a standard-setter to comment on all such papers or for the IASB to digest input to a project at that stage.

5 Application of standards

5.1 *Other accounting standard-setters should aim to achieve full adoption of IFRSs.*

5.2 Some standard-setters may be required to undertake one or more of the following processes in adopting IFRSs:

(a) translation;

(b) determine whether each standard meets specified criteria set out in local legislation;

(c) endorse the standards for the local regulatory framework;

(d) present the standards for parliamentary approval.

Therefore, adopting IFRSs is an ongoing process in many jurisdictions.

5.3 *Accordingly, the IASB, in setting the application date of new or amended standards, should bear in mind that other accounting standard-setters need enough time to perform those functions and are thus given every opportunity to establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs.* IAS 1 *Presentation of*

Financial Statements is clear that an entity must comply with all applicable IFRSs in order to make an unreserved statement of compliance with IFRSs.

5.4 In some cases, other accounting standard-setters have the capacity to amend IFRSs for application in their own jurisdictions. Amendments that preclude users of those standards from making an unreserved statement of compliance with IFRSs thwart the aim of promulgating a single set of high quality accounting standards that are globally accepted. *Accordingly, in adopting IFRSs to apply in their own jurisdictions, other accounting standard-setters should not change requirements contained in IFRSs.*

5.5 In some cases, other accounting standard-setters that are in the process of converging with IFRSs may decide to delete certain requirements temporarily because of legal impediments or to allow time for the business community to make the transition to full IFRSs. *In such cases, where possible, other accounting standard-setters should permit the full application of IFRSs so that constituents in a position to meet the full requirements can elect to conform fully with IFRSs. Because the financial statements of constituents who apply such amended standards could not contain an unreserved statement of compliance with IFRSs, those standard-setters should seek to achieve full conformity with IFRSs as soon as circumstances permit.*

5.6 *When other accounting standard-setters follow a policy of converging with IFRSs rather than adopting them verbatim, the ultimate objective should be to enable the entities applying the standards that have converged with IFRSs to make an unreserved statement of compliance with IFRSs.*

5.7 In some cases, other accounting standard-setters have a policy of removing optional treatments and adding disclosure requirements to IFRSs when they believe doing so provides more comparable and useful information in that jurisdiction.[9] For example, in some jurisdictions:

(a) entities may have been required to use one of the optional treatments for many years and introducing a choice when adopting IFRSs may be regarded as inappropriate; or

(b) the standard-setter may be trying to achieve convergence with another national or regional standard-setter at the same time as adopting IFRSs.

5.8 *When another accounting standard-setter makes any changes to an IFRS, for example adding a disclosure that is considered necessary in the local environment, or removing an optional treatment, this should be made clear so that users of the standard are aware of the changes.*

5.9 In some cases other accounting standard-setters may wish to use IFRSs, either in their entirety or as a base, for establishing financial reporting requirements for not-for-profit entities in the private or public sectors.[10] This is a matter for those standard-setters and is beyond the scope of this Statement.

5.10 The IASB is developing standards for small and medium-sized entities. The matters discussed in this Statement apply equally to such standards.

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9 Adding disclosure requirements or removing optional treatments does not create non-compliance with IFRSs. Indeed, the IASB aims to remove optional treatments from IFRSs. Nevertheless, removal of an option may increase preparation costs for multinational companies if the option removed is the global accounting policy, because the information from the subsidiary using one option needs to be changed to the option used by the group globally.

10 Some standard-setters have a policy of using IFRSs and/or International Public Sector Accounting Standards (IPSASs) as the basis for establishing financial reporting requirements for not-for-profit entities in the private or public sectors. Many of the IPSASs are themselves based on IFRSs.

6 Interpretation

6.1 Inevitably, questions of interpretation will arise when IFRSs are applied. *Accordingly, other accounting standard-setters should be familiar with the implementation of IFRSs in their jurisdictions*. This familiarisation process may involve, or depend upon, close liaison with local capital market and industry regulators.

6.2 *If a standard-setter believes that an issue requires interpretation of IFRSs, it should request the IFRIC to address the issue.* The IFRIC or IASB staff may decide that an amendment to an IFRS is the more appropriate course to follow. As part of this process, other accounting standard-setters that face a common issue could work together to formulate a possible approach to the issue for resolution by the IFRIC or the IASB.

6.3 IFRSs are intended to apply worldwide regardless of local legislative and regulatory environments. However, some issues may affect only one or two jurisdictions and may relate to particular legislative or other local requirements—for example, a tax law that is unique to a jurisdiction. In these cases, which are likely to be rare, other accounting standard-setters may decide to issue their own interpretations. Care needs to be exercised, however, to ensure that the issues are not more widely relevant.
In considering their own issues, other accounting standard-setters should liaise with the IFRIC, and if they believe it is necessary to issue an interpretation, they should avoid incompatibility with IFRSs.

6.4 *If the IFRIC decides not to address an issue that has been considered for inclusion on its agenda, a public explanation should be given so that the basis for the decision is clear.*[11]

11 This could include the explanation that the issue is already dealt with in existing IFRSs. There would be no need for an explanation if the issue were considered trivial.

7 Working with regulators

7.1 Financial reporting regulation in many jurisdictions is linked to other forms of regulation. For example, accounting standards may be given legal status under legislation that also sets out a broad framework for financial reporting. *Other accounting standard-setters can help to identify and promote the removal of domestic or regional regulatory barriers to adopting or converging with IFRSs, such as legislative impediments.* In many cases, this will require the co-operation of regulators (including relevant legislators). The IASB can also facilitate the removal of regulatory barriers through its relationships with international and regional capital markets and industry regulatory bodies.

7.2 In some jurisdictions, financial reporting regulation is the first form of regulation that is being harmonised or is converging internationally. *Other accounting standard-setters should keep those domestic regulators that regulate in areas related to financial reporting informed of relevant IASB initiatives and encourage them to embrace international convergence efforts in their own regulatory areas.* This may help to remove potential barriers to adopting IFRSs, because there are sometimes linkages between financial reporting and other regulatory reporting. This is not to say that all forms of reporting need to converge, because they will often be different to suit different objectives.

8 Education

8.1 *Other accounting standard-setters should make the IASC Foundation aware of educational needs in their jurisdictions and provide information about the types of programmes that are likely to be most useful and successful in their jurisdictions, and the IASC Foundation should be sensitive to those needs.*

8.2 *Other accounting standard-setters should also provide the IASC Foundation with material that they believe may be helpful in creating educational materials, such as guidance they have used in their jurisdictions in the past on particular topics.*

8.3 Other accounting standard-setters may find it useful to develop their own educational material as regards the implementation of IFRSs—for example, in order to cater for local needs and issues. *Because the material may have relevance to other jurisdictions, standard-setters should keep the IASC Foundation informed of any such material.*

9 Review

Accounting standard-setting is a dynamic activity against a backdrop of constant changes in the financial reporting environment, including changes in financial reporting requirements, the processes by which those requirements are developed and the structure within which standard-setting takes place. *To ensure that this Statement reflects the current standard-setting environment, it should be periodically reviewed by the IASB and other accounting standard-setters.*

HK(SIC)-Int 15
~~Issued December 2004~~Revised September 2010

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 15

Operating Leases — Incentives

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

Hong Kong (SIC) Interpretation 15
Operating Leases - Incentives

Hong Kong (SIC) Interpretation 15 *Operating Leases – Incentives* (HK(SIC)-Int 15) is set out in paragraphs 3-6. HK(SIC)-Int 15 is accompanied by a Basis for Conclusions and appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

References

- HKAS 1 *Presentation of Financial Statements* (as revised in 2007)
- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 17 *Leases*

Issues

1 In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.

2 The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

Conclusions

3 All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

4 The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

5 The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

6 Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the Hong Kong Accounting Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

Basis for Conclusions

HK(SIC)-Int 15 is based on SIC Interpretation 15 *Operating Leases – Incentives*. In approving HK(SIC)-Int 15, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 15. Accordingly, there are no significant differences between HK(SIC)-Int 15 and SIC Interpretation 15. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 15 referred to below generally correspond with those in HK(SIC)-Int 15.

7 Paragraph 35 of the *Framework* explains that if information is to represent faithfully the transactions and events that it purports to represent, it is necessary that transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. IAS 8.10(b)(ii) also requires the application of accounting policies which reflect economic substance.

8 Paragraph 22 of the Framework and IAS 1.~~25~~ 27 require the preparation of financial statements under the accrual basis of accounting. IAS 17.~~25~~33 and IAS 17.~~42~~50 specify the basis on which lessees and lessors respectively should recognise amounts payable or receivable under operating leases.

9 The underlying substance of operating lease arrangements is that the lessor and lessee exchange the use of an asset for a specified period for the consideration of a net amount of money. The accounting periods in which this net amount is recognised by either the lessor or the lessee is not affected by the form of the agreement or the timing of payments. Payments made by a lessor to or on behalf of a lessee, or allowances in rental cost made by a lessor, as incentives for the agreement of a new or renewed lease are an inseparable part of the net amount receivable or payable under the operating lease.

10 Costs incurred by the lessor as incentives for the agreement of new or renewed operating leases are not considered to be part of those initial costs which are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income in accordance with IAS 17.52. Initial costs, such as direct costs for administration, advertising and consulting or legal fees, are incurred by a lessor to arrange a contract, whereas incentives in an operating lease are, in substance, related to the consideration for the use of the leased asset.

11 Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognised as an expense in ~~the income statement~~profit or loss in the period in which they are incurred. The accounting for such costs does not depend on whether or not they are effectively reimbursed through an incentive arrangement as they are not related to the consideration for the use of the leased asset.

Date of issue

December 2004

Effective date

This Interpretation becomes effective for lease terms beginning on or after 1 January 2005. Earlier application is encouraged.

This Interpretation supersedes paragraphs 27, 28, 48 to 50 of SSAP 14 *Leases* (issued in February 2000)

Appendix to SIC-15

This appendix accompanies, but is not part of, SIC-15.

Example application of SIC-15

Example 1

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are 1,000. The new lease has a term of 10 years, at a fixed rate of 2,000 per year.

The accounting is:

The lessee recognises relocation costs of 1,000 as an expense in Year 1. Net consideration of 19,000 consists of 2,000 for each of the 10 years in the lease term, less a 1,000 incentive for relocation costs. Both the lessor and lessee would recognise the net rental consideration of 19,000 over the 10 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.

Example 2

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to a rent-free period for the first three years as incentive to the lessee for entering into the new lease. The new lease has a term of 20 years, at a fixed rate of 5,000 per ~~annum~~ year for years 4 through 20.

The accounting is:

Net consideration of 85,000 consists of 5,000 for each of 17 years in the lease term. Both the lessor and lessee would recognise the net consideration of 85,000 over the 20 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.

HK(SIC)-Int 27
~~Issued December 2004~~Revised September 2010

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 27

Evaluating the Substance of Transactions Involving the Legal Form of a Lease

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

Hong Kong Interpretation 27
Evaluating the Substance of Transactions Involving the Legal Form of a Lease

HK(SIC) Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (HK(SIC)-Int 27) is set out in paragraphs 3-11. HK(SIC)-Int 27 is accompanied by a Basis for Conclusions and appendices illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

References

- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 11 *Construction Contracts*
- HKAS 17 *Leases*
- HKAS 18 *Revenue*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 39 *Financial Instruments: Recognition and Measurement* (as revised in 2003)
- HKFRS 4 *Insurance Contracts*

Issue

1 An Entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an Investor) that involves the legal form of a lease. For example, an Entity may lease assets to an Investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the Investor that is shared with the Entity in the form of a fee, and not to convey the right to use an asset.

2 When an arrangement with an Investor involves the legal form of a lease, the issues are:

(a) how to determine whether a series of transactions is linked and should be accounted for as one transaction;

(b) whether the arrangement meets the definition of a lease under HKAS 17; and, if not,

(i) whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the Entity (eg, consider the example described in paragraph A2(a) of Appendix A);

(ii) how the Entity should account for other obligations resulting from the arrangement; and

(iii) how the Entity should account for a fee it might receive from an Investor.

Conclusions

3 A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. This is the case, for example, when the series of transactions are closely interrelated, negotiated as a single transaction, and takes place concurrently or in a continuous sequence. (Appendix A provides illustrations of application of this Interpretation.)

4 The accounting shall reflect the substance of the arrangement. All aspects and implications of an arrangement shall be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect.

5 HKAS 17 applies when the substance of an arrangement includes the conveyance of the right to use an asset for an agreed period of time. Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under HKAS 17 include (Appendix B provides illustrations of application of this Interpretation):

(a) an Entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;

(b) the primary reason for the arrangement is to achieve a particular tax result, and not to convey the right to use an asset; and

(c) an option is included on terms that make its exercise almost certain (eg, a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).

6 The definitions and guidance in paragraphs 49 – 64 of the *Framework* shall be applied in determining whether, in substance, a separate investment account and lease payment obligations represent assets and liabilities of the Entity. Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the Entity include:

(a) the Entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments. This occurs when, for example, a prepaid amount is placed in a separate investment account to protect the Investor and may only be used to pay the Investor, the Investor agrees that the lease payment obligations are to be paid from funds in the investment account, and the Entity has no ability to withhold payments to the Investor from the investment account;

(b) the Entity has only a remote risk of reimbursing the entire amount of any fee received from an Investor and possibly paying some additional amount, or, when a fee has not been received, only a remote risk of paying an amount under other obligations (eg, a guarantee). Only a remote risk of payment exists when, for example, the terms of the arrangement require that a prepaid amount is invested in risk-free assets that are expected to generate sufficient cash flows to satisfy the lease payment obligations; and

(c) other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.

7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under HKAS 37, HKAS 39 or HKFRS 4, depending on the terms.

8 The criteria in paragraph 20 of HKAS 18 shall be applied to the facts and circumstances of each arrangement in determining when to recognise a fee as income that an Entity might receive. Factors such as whether there is continuing involvement in the form of significant future performance obligations necessary to earn the fee, whether there are retained risks, the terms of any guarantee arrangements, and the risk of repayment of the fee, shall be considered. Indicators that individually demonstrate that recognition of the entire fee as income when received, if received at the beginning of the arrangement, is inappropriate include:

(a) obligations either to perform or to refrain from certain significant activities are conditions of earning the fee received, and therefore execution of a legally binding arrangement is not the most significant act required by the arrangement;

(b) limitations are put on the use of the underlying asset that have the practical effect of restricting and significantly changing the Entity's ability to use (eg, deplete, sell or pledge as collateral) the asset;

(c) the possibility of reimbursing any amount of the fee and possibly paying some additional amount is not remote. This occurs when, for example,

(i) the underlying asset is not a specialised asset that is required by the Entity to conduct its business, and therefore there is a possibility that the Entity may pay an amount to terminate the arrangement early; or

(ii) the Entity is required by the terms of the arrangement, or has some or total discretion, to invest a prepaid amount in assets carrying more than an insignificant amount of risk (eg, currency, interest rate or credit risk). In this circumstance, the risk of the investment's value being insufficient to satisfy the lease payment obligations is not remote, and therefore there is a possibility that the Entity may be required to pay some amount.

9 The fee shall be presented in the ~~income statement~~statement of comprehensive income based on its economic substance and nature.

Disclosure

10 All aspects of an arrangement that does not, in substance, involve a lease under HKAS 17 shall be considered in determining the appropriate disclosures that are necessary to understand the arrangement and the accounting treatment adopted. An Entity shall disclose the following in each period that an arrangement exists:

(a) a description of the arrangement including:

(i) the underlying asset and any restrictions on its use;

(ii) the life and other significant terms of the arrangement;

(iii) the transactions that are linked together, including any options; and

(b) the accounting treatment applied to any fee received, the amount recognised as income in the period, and the line item of the ~~income statement~~statement of comprehensive income in which it is included.

11 The disclosures required in accordance with paragraph 10 of this Interpretation shall be provided individually for each arrangement or in aggregate for each class of arrangement. A class is a grouping of arrangements with underlying assets of a similar nature (eg, power plants).

Basis for Conclusions

HK(SIC)-Int 27 is based on SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. In approving HK(SIC)-Int 27, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 27. Accordingly, there are no significant differences between HK(SIC)-Int 27 and SIC Interpretation 27. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 27 referred to below generally correspond with those in HK(SIC)-Int 27.

12 Paragraph 9 of IAS 11 *Construction Contracts*, requires a group of contracts to be treated as a single contract when the group of contracts is negotiated as a single package, the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and the contracts are performed concurrently or in a continuous sequence. In such a situation, a series of transactions that involve the legal form of a lease are linked and accounted for as one transaction, because the overall economic effect cannot be understood without reference to the series of transactions as a whole.

13 An agreement is accounted for as a lease in accordance with IAS 17 when it conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. For information to represent faithfully the transactions it purports to represent, paragraph 35 of the *Framework* indicates that it is necessary that transactions are accounted for and presented in accordance with their substance and economic reality, not merely their legal form.

14 When an Entity does not control the assets that will be used to satisfy the lease payment obligations, and is not obligated to pay the lease payments, it does not recognise the assets and lease payment obligations, because the definitions of an asset and a liability have not been met. This is different from the circumstance when an Entity controls the assets, is obligated to pay the lease payments, and then later transfers assets to a third party (including a trust). In that circumstance, the transfer of assets (sometimes called an 'in-substance' defeasance) does not by itself relieve the Entity of its primary obligation, in the absence of legal release. A financial asset and a financial liability, or a portion of either, are derecognised only when the requirements of paragraphs 15-37, 39-42, AG36-AG52 and AG57-AG63 of IAS 39 are met.

15 IFRS 4 provides guidance for recognising and measuring financial guarantees and similar instruments that provide for payments to be made if the debtor fails to make payments when due, if that contract transfers significant insurance risk to the issuer. Financial guarantee contracts that provide for payments to be made in response to changes in relation to a variable (sometimes referred to as an 'underlying') are subject to IAS 39.

16 IAS 18 addresses the accounting treatment of revenue. Paragraph 75 of the *Framework* indicates that gains are no different in nature from revenue. Therefore, the requirements of IAS 18 apply by analogy or otherwise. Example 14(c) in the Appendix of IAS 18 states that a fee earned on the execution of a significant act, which is much more significant than any other act, is recognised as income when the significant act has been completed. The example also indicates that it is necessary to distinguish between fees earned on completion of a significant act and fees related to future performance or risks retained.

Date of issue

December 2004

Effective date

This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes Interpretation 14 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (issued in July 2002).

Appendix A
Linked transactions

These appendices accompanies, but is not part of, SIC-27.

A1 The Interpretation requires consideration of whether a series of transactions that involve the legal form of a lease are linked to determine whether the transactions are accounted for as one transaction.

A2 Extreme examples of transactions that are viewed as a whole and accounted for as single transactions, include:

(a) An Entity leases an asset to an Investor (the headlease) and leases the same asset back for a shorter period of time (the sublease). At the end of the sublease period, the Entity has the right to buy back the rights of the Investor under a purchase option. If the Entity does not exercise its purchase option, the Investor has options available to it under each of which the Investor receives a minimum return on its investment in the headlease - the Investor may put the underlying asset back to the Entity, or require the Entity to provide a return on the Investor's investment in the headlease.

The predominant purpose of the arrangement is to achieve a tax advantage for the Investor, which is shared with the Entity in the form of a fee, and not to convey the right to use an asset. The Investor pays the fee and prepays the lease payment obligations under the headlease. The agreement requires the amount prepaid to be invested in risk-free assets and, as a requirement of finalising the execution of the legally binding arrangement, placed into a separate investment account held by a Trustee outside of the control of the Entity. The fee is retained by the Entity.

Over the term of the sublease, the sublease payment obligations are satisfied with funds of an equal amount withdrawn from the separate investment account. The Entity guarantees the sublease payment obligations, and will be required to satisfy the guarantee should the separate investment account have insufficient funds. The Entity, but not the Investor, has the right to terminate the sublease early under certain circumstances (eg a change in local or international tax law causes the Investor to lose part or all of the tax benefits, or the Entity decides to dispose of (eg, replace, sell or deplete) the underlying asset) and upon payment of a termination value to the Investor. If the Entity chooses early termination, then it would pay the termination value from funds withdrawn from the separate investment account, and if the amount remaining in the separate investment account is insufficient, the difference would be paid by the Entity. The underlying asset is a specialised asset that the Entity requires to conduct its business.

(b) An entity leases an asset to another entity for its entire economic life and leases the same asset back under the same terms and conditions as the original lease. The two entities have a legally enforceable right to set off the amounts owing to one another, and an intention to settle these amounts on a net basis.

(c) An entity (Entity A) leases an asset to another entity (Entity B), and obtains a non-recourse loan from a financier (by using the lease rentals and the asset as collateral). Entity A sells the asset subject to the lease and the loan to a trustee, and leases the same asset back. Entity A also concurrently agrees to repurchase the asset at the end of the lease for an amount equal to the sale price. The financier legally releases Entity A from the primary responsibility for the loan, and Entity A guarantees repayment of the non-recourse loan if Entity B defaults on the payments under the original lease. Entity B's credit rating is assessed as AAA and the amounts of the payments under each of the leases are equal. Entity A has a legally enforceable right to set-off the amounts owing under each of the leases, and an intention to settle the rights and obligations under the leases on a net basis.

(d) An entity (Entity A) legally sells an asset to another entity (Entity B) and leases the same asset back. Entity B is obligated to put the asset back to Entity A at the end of the lease period at an amount that has the overall practical effect, when also considering the lease payments to be received, of providing Entity B with a yield of Libor plus 2 per cent per year on the purchase price.

Appendix B
The substance of an arrangement

This appendix accompanies, but is not part of, SIC-27.

B1 The Interpretation requires consideration of the substance of an arrangement to determine whether it includes the conveyance of the right to use an asset for an agreed period of time.

B2 In each of the examples described in Appendix A, the arrangement does not, in substance, involve a lease under IAS 17 for the following reasons:

(a) in the example described in paragraph A2(a), the arrangement is designed predominantly to generate tax benefits that are shared between the two entities. Even though the periods of the headlease and sublease are different, the options available to each of the entities at the end of the sublease period are structured such that the Investor assumes only an insignificant amount of asset risk during the headlease period. The substance of the arrangement is that the Entity receives a fee for executing the agreements, and retains the risks and rewards incident to ownership of the underlying asset.

(b) in the example described in paragraph A2(b), the terms and conditions and period of each of the leases are the same. Therefore, the risks and rewards incident to ownership of the underlying asset are the same as before the arrangement. Further, the amounts owing are offset against one another, and so there is no retained credit risk. The substance of the arrangement is that no transaction has occurred.

(c) in the example described in paragraph A2(c), Entity A retains the risks and rewards incident to ownership of the underlying asset, and the risk of payment under the guarantee is only remote (due to the AAA credit rating). The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset.

(d) in the example described in paragraph A2(d), Entity A's risks and rewards incident to owning the underlying asset do not substantively change. The substance of the arrangement is that Entity A borrows cash, secured by the underlying asset and repayable in instalments over the lease period and in a final lump sum at the end of the lease period. The terms of the option preclude recognition of a sale. Normally, in a sale and leaseback transaction, the risks and rewards incident to owning the underlying asset sold are retained by the seller only during the period of the lease.

HK(SIC)-Int 31
~~Issued December 2004~~Revised September 2010

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 31

Revenue — Barter Transactions Involving Advertising Services

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

Hong Kong(SIC) Interpretation 31
Revenue - Barter Transactions Involving Advertising Services

HK(SIC) Interpretation 31 *Revenue - Barter Transactions Involving Advertising Services* (HK(SIC)-Int 31) is set out in paragraph 5. HK(SIC)-Int 31 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

References

- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 18 *Revenue*

Issue

1 An entity (Seller) may enter into a barter transaction to provide advertising services in exchange for receiving advertising services from its customer (Customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium.

2 In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

3 A Seller that provides advertising services in the course of its ordinary activities recognises revenue under HKAS 18 from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar (HKAS 18.12) and the amount of revenue can be measured reliably (HKAS 18.20(a)). This Interpretation only applies to an exchange of dissimilar advertising services. An exchange of similar advertising services is not a transaction that generates revenue under HKAS 18.

4 The issue is under what circumstances can a Seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

Conclusion

5 Revenue from a barter transaction involving advertising cannot be measured reliably at the fair value of advertising services received. However, a Seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction, by reference only to non-barter transactions that:

(a) involve advertising similar to the advertising in the barter transaction;

(b) occur frequently;

(c) represent a predominant number of transactions and amount when compared to all transactions to provide advertising that is similar to the advertising in the barter transaction;

(d) involve cash and/or another form of consideration (eg, marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and

(e) do not involve the same counterparty as in the barter transaction.

Basis for Conclusions

HK(SIC)-Int 31 is based on SIC Interpretation 31 *Revenue – Barter Transactions Involving Advertising Services*. In approving HK(SIC)-Int 31, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 31. Accordingly, there are no significant differences between HK(SIC)-Int 31 and SIC Interpretation 31. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 31 referred to below generally correspond with those in HK(SIC)-Int 31.

6 IAS 18.9 requires revenue to be measured at the fair value of the consideration received or receivable. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services provided, adjusted by the amount of any cash or cash equivalents transferred. IAS 18.26 states that when the outcome of a transaction involving the rendering of services cannot be estimated reliably (eg, the amount of revenue cannot be measured reliably), revenue should be recognised only to the extent of the expenses recognised that are recoverable. As explained in IAS 18.27, this means that revenue is recognised only to the extent of costs incurred that are expected to be recoverable and, as the outcome of the transactions cannot be estimated reliably, no profit is recognised.

7 Paragraph 31 of the *Framework* states that information has the quality of reliability when it is free from material error and bias and is representationally faithful. Measuring revenue at the fair value of advertising services received from the Customer in a barter transaction is impracticable, because reliable information not available to the Seller is required to support the measurement. Consequently, revenue from a barter transaction involving advertising services is measured at the fair value of the advertising services provided by the Seller to the Customer.

8 IAS 18.7 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A published price of a service does not constitute reliable evidence of its fair value, unless the price is supported by transactions with knowledgeable and willing parties in an arm's length transaction. For transactions to provide a relevant and reliable basis for support, the services involved are similar, there are many transactions, valuable consideration that can be reliably measured is exchanged, and independent third parties are involved. Consequently, the fair value of advertising services provided in a barter transaction is reliably measurable only when it is supportable by reference to non-barter transactions that have these characteristics.

9 However, a swap of cheques, for example, for equal or substantially equal amounts between the same entities that provide and receive advertising services does not provide reliable evidence of fair value. An exchange of advertising services that also includes only partial cash payment provides reliable evidence of the fair value of the transaction to the extent of the cash component (except when partial cash payments of equal or substantially equal amounts are swapped), but does not provide reliable evidence of the fair value of the entire transaction.

10 Reliable measurement of the fair value of a service also depends on a number of other factors, including the industry, the number of market participants, the nature of the services, and the number of market transactions. In the case of barter transactions involving advertising, the fair value of advertising services is reliably measurable when independent non-barter transactions involving similar advertising provide reliable evidence to substantiate the fair value of the barter exchange.

Date of issue

December 2004

Effective date

This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes Interpretation 19 *Revenue - Barter Transactions Involving Advertising Service* (issued in July 2002).

HK(SIC)-Int 32
~~Issued December 2004~~Revised September 2010

Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 32

Intangible Assets — Web Site Costs

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

Hong Kong (SIC) Interpretation 32
Intangible Assets - Web Site Costs

HK(SIC) Interpretation 32 *Intangible Assets -Web Site Costs* (HK(SIC)-Int 32) is set out in paragraphs 7-10. HK(SIC)-Int 32 is accompanied by a Basis for Conclusions and appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

References

- HKAS 1 *Presentation of Financial Statements* (as revised in 2007)
- HKAS 2 *Inventories*
- HKAS 11 *Construction Contracts*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 17 *Lease*
- HKAS 36 *Impairment of Assets*
- HKAS 38 *Intangible Assets*
- HKFRS 3 *Business Combinations*

Issue

1 An entity may incur internal expenditure on the development and operation of its own web site for internal or external access. A web site designed for external access may be used for various purposes such as to promote and advertise an entity's own products and services, provide electronic services, and sell products and services. A web site designed for internal access may be used to store company policies and customer details, and search relevant information.

2 The stages of a web site's development can be described as follows:

(a) Planning - includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.

(b) Application and Infrastructure Development - includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.

(c) Graphical Design Development - includes designing the appearance of web pages.

(d) Content Development - includes creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.

3 Once development of a web site has been completed, the Operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

4 When accounting for internal expenditure on the development and operation of an entity's own web site for internal or external access, the issues are:

(a) whether the web site is an internally generated intangible asset that is subject to the requirements of HKAS 38; and

(b) the appropriate accounting treatment of such expenditure.

5 This Interpretation does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and Internet connections) of a web site. Such expenditure is accounted for under HKAS 16 *Property, Plant and Equipment*. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under HKAS 1.~~78~~88 and the *Framework* when the services are received.

6 HKAS 38 does not apply to intangible assets held by an entity for sale in the ordinary course of business (see HKAS 2 and HKAS 11) or leases that fall within the scope of HKAS 17. Accordingly, this Interpretation does not apply to expenditure on the development or operation of a web site (or web site software) for sale to another entity. When a web site is leased under an operating lease, the lessor applies this Interpretation. When a web site is leased under a finance lease, the lessee applies this Interpretation after initial recognition of the leased asset.

Conclusions

7 An entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of HKAS 38.

8 A web site arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in HKAS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in HKAS 38.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its web site will generate probable future economic benefits in accordance with HKAS 38.57(d) when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred.

9 Any internal expenditure on the development and operation of an entity's own web site shall be accounted for in accordance with HKAS 38. The nature of each activity for which expenditure is incurred (eg training employees and maintaining the web site) and the web site's stage of development or post-development shall be evaluated to determine the appropriate accounting treatment (additional guidance is provided in the Appendix to this Interpretation). For example:

(a) the Planning stage is similar in nature to the research phase in HKAS 38.54-.56. Expenditure incurred in this stage shall be recognised as an expense when it is incurred.

(b) the Application and Infrastructure Development stage, the Graphical Design stage and the Content Development stage, to the extent that content is developed for purposes other than to advertise and promote an entity's own products and services, are similar in nature to the development phase in HKAS 38.57-.64. Expenditure incurred in these stages shall be included in the cost of a web site recognised as an intangible asset in accordance with paragraph 8 of this Interpretation when the expenditure can be directly attributed and is necessary to creating, producing or preparing the web site for it to be capable of operating in the manner intended by management. For example, expenditure on purchasing or creating content (other than content that advertises and promotes an entity's own products and services) specifically for a web site, or expenditure to enable use of the content (eg a fee for acquiring a licence to reproduce) on the web site, shall be included in the cost of development when this condition is met. However, in accordance with HKAS 38.71, expenditure on an intangible item that was initially recognised as an expense in previous financial statements shall not be recognised as part of the cost of an intangible asset at a later date (eg if the costs of a copyright have been fully amortised, and the content is subsequently provided on a web site).

(c) expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), shall be recognised as an expense when incurred in accordance with HKAS 38.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.

(d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in HKAS 38.18.

10 A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of HKAS 38.72-.87. The best estimate of a web site's useful life should be short.

Basis for Conclusions

HK(SIC)-Int 32 is based on SIC Interpretation 32 *Intangible Assets -Web Site Costs*. In approving HK(SIC)-Int 32, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 32. Accordingly, there are no significant differences between HK(SIC)-Int 32 and SIC Interpretation 32. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 32 referred to below generally correspond with those in HK(SIC)-Int 32.

11 An intangible asset is defined in IAS 38.8 as an identifiable non-monetary asset without physical substance. IAS 38.9 provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset.

12 IAS 38.68 requires expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in IAS 38.18-.67. IAS 38.69 requires expenditure on start-up activities to be recognised as an expense when incurred. An entity developing its own web site for internal or external access is not undertaking a start-up activity to the extent that an internally generated intangible asset is created. The requirements and guidance in IAS 38.52-.67, in addition to the general requirements described in IAS 38.21 for recognition and initial measurement of an intangible asset, apply to expenditure incurred on the development of an entity's own web site. As described in IAS 38.65-.67, the cost of a web site recognised as an internally generated intangible asset comprises all expenditure that can be directly attributed and is necessary to creating, producing and preparing the asset for it to be capable of operating in the manner intended by management.

13 IAS 38.54 requires expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in IAS 38.56 are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditure incurred in the Planning stage of a web site's development is recognised as an expense when incurred.

14 IAS 38.57 requires an intangible asset arising from the development phase of an internal project to be recognised only if an entity can demonstrate fulfilment of the six criteria specified. One of the criteria is to demonstrate how a web site will generate probable future economic benefits (IAS 38.57(d)). IAS 38.60 indicates that this criterion is met by assessing the economic benefits to be received from the web site and using the principles in IAS 36 *Impairment of Assets*, which considers the present value of estimated future cash flows from continuing use of the web site. Future economic benefits flowing from an intangible asset, as stated in IAS 38.17, may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. Therefore, future economic benefits from a web site may be assessed when the web site is capable of generating revenues. A web site developed solely or primarily for advertising and promoting an entity's own products and services is not recognised as an intangible asset, because the entity cannot demonstrate the future economic benefits that will flow. Consequently, all expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred.

15 Under IAS 38.21, an intangible asset is recognised if, and only if, it meets specified criteria. IAS 38.65 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content for purposes other than to advertise and promote an entity's own products and services, it may be possible to identify an intangible asset (eg a licence or a copyright) separate from a web site. However, a separate asset is not recognised when expenditure is directly attributed, to creating, producing, and preparing the web site for it to be capable of operating in the manner intended by management—the expenditure is included in the cost of developing the web site.

16 IAS 38.69(c) requires expenditure on advertising and promotional activities to be recognised as an expense when incurred. Expenditure incurred on developing content that advertises and promotes an entity's own products and services (eg digital photographs of products) is an advertising and promotional activity, and consequently recognised as an expense when incurred.

17 Once development of a web site is complete, an entity begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an entity's own web site is recognised as an expense when incurred unless it meets the recognition criteria in IAS 38.18. IAS 38.20 explains that most subsequent expenditures are likely to maintain the future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria set out in IAS 38. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset — be recognised in the carrying amount of an asset.

18 An intangible asset is measured after initial recognition by applying the requirements of IAS 38.72-.87. The revaluation model in IAS 38.75 is applied only when the fair value of an intangible asset can be determined by reference to an active market. However, as an active market is unlikely to exist for web sites, the cost model applies. Additionally, as indicated in IAS 38.92, many intangible assets are susceptible to technological obsolescence, and given the history of rapid changes in technology, the useful life of web sites will be short.

Date of Issue

December 2004

Effective Date

This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

This Interpretation supersedes Interpretation 19 *Intangible Asset – Website Costs* (issued in October 2002).

Appendix to SIC-32

This appendix accompanies, but is not part of, SIC-32. The purpose of the appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of SIC-32 and illustrate application of SIC-32 to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

Example application of SIC-32

Stage / nature of expenditure	Accounting treatment
Planning	
● undertaking feasibility studies ● defining hardware and software specifications ● evaluating alternative products and suppliers ● selecting preferences	Recognise as an expense when incurred in accordance with IAS 38.54
Application and infrastructure development	
● purchasing or developing hardware	Apply the requirements of IAS 16
● obtaining a domain name ● developing operating software (eg operating system and server software) ● developing code for the application ● installing developed applications on the web server ● stress testing	Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57[(a)]
Graphical design development	
● designing the appearance (eg layout and colour) of web pages	Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57[(a)]
Content development	
● creating, purchasing, preparing (eg creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access	Recognise as an expense when incurred in accordance with IAS 38.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products). Otherwise, recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in IAS 38.21 and IAS 38.57[(a)] ***continued…***

…continued **Stage / nature of expenditure**	**Accounting treatment**
Operating ● updating graphics and revising content ● adding new functions, features and content ● registering the web site with search engines ● backing up data ● reviewing security access ● analysing usage of the web site	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in IAS 38.18, in which case the expenditure is recognised in the carrying amount of the web site asset
Other ● selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management ● clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (eg false-start testing) ● training employees to operate the web site	Recognise as an expense when incurred in accordance with IAS 38.65-.70
[(a)] All expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred in accordance with IAS 38.68.	

Effective upon issue

Glossary of Terms Relating to Hong Kong Financial Reporting Standards

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Glossary of Terms

This glossary is extracted from the Hong Kong Financial Reporting Standards (HKFRSs) including Hong Kong Accounting Standards (HKASs) issued by the Hong Kong Institute of Certified Public Accountants as at 31 December 2009. References are by Standard and paragraph number.

The glossary also includes extracts from the *Framework for the Preparation and Presentation of Financial Statements*. References to the *Framework* are preceded by F.

References set out below in (brackets) indicate minor variations in wording.

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.	HKAS 8.5
accounting profit	Profit or loss for a period before deducting tax expense.	HKAS 12.5
accrual basis of accounting	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.	F.22
accumulating compensated absences	Compensated absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.	HKAS 19.13
acquiree	The business or businesses that the acquirer obtains control of in a business combination.	HKFRS 3.A
acquirer	The entity that obtains control of the acquiree.	HKFRS 3.A
acquisition date	The date on which the acquirer obtains control of the acquiree.	HKFRS 3.A
active market	A market in which all the following conditions exist: (a) the items traded within the market are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public.	HKAS 36.6, (HKAS 38.8), HKAS 41.8
active market	A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.	HKAS 39.AG71

actuarial assumptions	An entity's unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing post-employment benefits.	HKAS 19.72–73
actuarial gains and losses	(a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) the effects of changes in actuarial assumptions.	HKAS 19.7
actuarial present value of promised retirement benefits	The present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.	HKAS 26.8
adjusting events after the reporting period	See 'events after the reporting period'	
agricultural activity	The management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.	HKAS 41.5
agricultural produce	The harvested product of the entity's biological assets.	HKAS 41.5
amortisation (depreciation)*	The systematic allocation of the depreciable amount of an asset over its useful life.	HKAS 36.6, HKAS 38.8
amortised cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.	HKAS 39.9
antidilution	An increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.	HKAS 33.5
asset	A resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.	HKAS 38.8, (F.49(a))

* In the case of an intangible asset, the term 'amortisation' is generally used instead of 'depreciation'. The two terms have the same meaning.

assets held by a long-term employee benefit fund	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.	HKAS 19.7
associate	An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.	HKAS 28.2
available-for-sale financial assets	Those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.	HKAS 39.9
basic earnings per share	Profit or loss attributable to ordinary equity holders of the parent entity (the numerator) divided by the weighted average number of ordinary shares outstanding during the period (the denominator).	HKAS 33.10
biological asset	A living animal or plant.	HKAS 41.5
biological transformation	The processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.	HKAS 41.5
borrowing costs	Interest and other costs that an entity incurs in connection with the borrowing of funds.	HKAS 23.5
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.	HKFRS 3.A
business combination	A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in HKFRS 3.	HKFRS 3.A

capital	Under a financial concept of capital, such as invested money or invested purchasing power, the net assets or equity of the entity. The financial concept of capital is adopted by most entities. Under a physical concept of capital, such as operating capability, the productive capacity of the entity based on, for example, units of output per day.	F.102
capitalisation	Recognising a cost as part of the cost of an asset.	HKAS 23.9
carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.	HKAS 16.6, HKAS 36.6, HKAS 38.8
carrying amount	The amount at which an asset is recognised in the statement of financial position.	HKAS 40.5, HKAS 41.8
cash	Cash on hand and demand deposits.	HKAS 7.6
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.	HKAS 7.6
cash flows	Inflows and outflows of cash and cash equivalents.	HKAS 7.6
cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.	HKAS 36.6, HKFRS 5.A
cash-settled share-based payment transaction	A share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.	HKFRS 2.A
cedant	The policyholder under a reinsurance contract.	HKFRS 4.A
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.	HKAS 8.5
class of assets	A grouping of assets of a similar nature and use in an entity's operations.	HKAS 16.37, HKAS 36.127, HKAS 38.119

class of financial instruments	Grouping of financial instruments that is appropriate to the nature of the information disclosed and that takes into account the characteristics of those financial instruments.	HKFRS 7.6
close members of the family of an individual	Those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include: (a) that individual's domestic partner and children; (b) children of the individual's domestic partner; and (c) dependants of the individual or the individual's domestic partner.	HKAS 24.9
closing rate	The spot exchange rate at the end of the reporting period.	HKAS 21.8
commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).	HKAS 17.4
compensation	Includes all employee benefits (as defined in HKAS 19) including employee benefits to which HKFRS 2 applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes: (a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees; (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care; (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; (d) termination benefits; and (e) share-based payment.	HKAS 24.9
component of an entity	Operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.	HKFRS 5.A

compound financial instrument	A financial instrument that, from the issuer's perspective, contains both a liability and an equity element.	HKAS 32.28–29
consolidated financial statements	The financial statements of a group presented as those of a single economic entity.	HKAS 27.4, HKAS 28.2
construction contract	A contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.	HKAS 11.3
constructive obligation	An obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	HKAS 37.10
contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	HKAS 37.10
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.	HKFRS 3.A
contingent liability	(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.	HKAS 37.10

contingent rent	That portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (eg percentage of future sales, amount of future use, future price indices, future market rates of interest).	HKAS 17.4
contingent share agreement	An agreement to issue shares that is dependent on the satisfaction of specified conditions.	HKAS 33.5
contingently issuable ordinary shares	Ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.	HKAS 33.5
contract	An agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable at law. Contracts may take a variety of forms and need not be in writing.	HKAS 32.13
control (of an entity)	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.	HKAS 24.9, HKAS 27.4, HKAS 28.2, (HKAS 31.3), HKFRS 3.A
corporate assets	Assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.	HKAS 36.6
'corridor'	A range around an entity's best estimate of post-employment benefit obligations.	HKAS 19.95
cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other HKFRSs, eg HKFRS 2.	HKAS 16.6, HKAS 38.8, HKAS 40.5
cost of inventories	All costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.	HKAS 2.10
cost of purchase	All of the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of the item. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.	HKAS 2.11
cost plus contract	A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.	HKAS 11.3

costs of conversion	Costs directly related to the units of production, such as direct labour together with a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.	HKAS 2.12
costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.	HKAS 36.6
costs to sell	The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.	HKFRS 5.A (HKAS 41.5)
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	HKFRS 7.A
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	HKFRS 7.A
current asset	An entity shall classify an asset as current when: (a) it expects to realise the asset or intends to sell or consume it in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent (as defined in HKAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. An entity shall classify all other assets as non-current.	HKAS 1.66, (HKFRS 5.A)
current cost	The amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. The undiscounted amount of cash or cash equivalents that would be required to settle an obligation currently.	F.100(b)
current liability	An entity shall classify a liability as current when: (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. An entity shall classify all other liabilities as non-current.	HKAS 1.69

current service cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period.	HKAS 19.7
current tax	The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.	HKAS 12.5
curtailment (of a defined benefit plan)	A curtailment occurs when an entity either: (a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or (b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.	HKAS 19.111
date of transition to HKFRSs	The beginning of the earliest period for which an entity presents full comparative information under HKFRSs in its first HKFRS financial statements.	HKFRS 1.A
deductible temporary differences	Temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.	HKAS 12.5
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.	HKFRS 1.A
deferred tax assets	The amounts of income taxes recoverable in future periods in respect of: (a) deductible temporary differences; (b) the carryforward of unused tax losses; and (c) the carryforward of unused tax credits.	HKAS 12.5
deferred tax liabilities	The amounts of income taxes payable in future periods in respect of taxable temporary differences.	HKAS 12.5
defined benefit liability	The net total of the following amounts: (a) the present value of the defined benefit obligation at the end of the reporting period; (b) plus any actuarial gains (less any actuarial losses) not recognised; (c) minus any past service cost not yet recognised; (d) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.	HKAS 19.54

defined benefit obligation (present value of)	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	HKAS 19.7
defined benefit plans	Post-employment benefit plans other than defined contribution plans.	HKAS 19.7
defined benefit plans	Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.	HKAS 26.8
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	HKAS 19.7
defined contribution plans	Retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.	HKAS 26.8
demonstrably committed	An entity is demonstrably committed to pay termination benefits when, and only when, an entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum: (a) the location, function, and approximate number of employees whose services are to be terminated; (b) the termination benefits for each job classification or function; and (c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.	HKAS 19.134
deposit component	A contractual component that is not accounted for as a derivative under HKAS 39 and would be within the scope of HKAS 39 if it were a separate instrument.	HKFRS 4.A
depreciable amount	The cost of an asset, or other amount substituted for cost (in the financial statements), less its residual value.	HKAS 16.6, (HKAS 36.6, HKAS 38.8)
depreciation (amortisation)*	The systematic allocation of the depreciable amount of an asset over its useful life.	HKAS 16.6, HKAS 36.6

* In the case of an intangible asset, the term 'amortisation' is generally used instead of 'depreciation'. The two terms have the same meaning.

derecognition (of a financial instrument)	The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.	HKAS 39.9
derivative	A financial instrument or other contract within the scope of HKAS 39 (see paragraphs 2–7) with all three of the following characteristics: (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date.	HKAS 39.9
derivative financial instruments	Financial instruments such as financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favourable or unfavourable.	HKAS 32. AG15–AG16
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	HKAS 38.8
diluted earnings per share	Profit or loss attributable to ordinary equity holders of the parent entity (the numerator), divided by the weighted average number of ordinary shares outstanding during the period (the denominator), both adjusted for the effects of all dilutive potential ordinary shares.	HKAS 33.31

dilution	A reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.	HKAS 33.5
dilutive potential ordinary shares	Potential ordinary shares whose conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.	HKAS 33.41
direct insurance contract	An insurance contract that is not a reinsurance contract.	HKFRS 4.A
direct method of reporting cash flows from operating activities	A method whereby major classes of gross cash receipts and gross cash payments are disclosed.	HKAS 7.18(a)
discontinued operation	A component of an entity that either has been disposed of or is classified as held for sale and: (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.	HKFRS 5.A
discretionary participation feature	A contractual right to receive, as a supplement to guaranteed benefits, additional benefits: (a) that are likely to be a significant portion of the total contractual benefits; (b) whose amount or timing is contractually at the discretion of the issuer; and (c) that are contractually based on: (i) the performance of a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the company, fund or other entity that issues the contract.	HKFRS 4.A

disposal group	A group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in accordance with the requirements of paragraphs 80–87 of HKAS 36 or if it is an operation within such a cash-generating unit.	HKFRS 5.A
dividends	Distributions of profits to holders of equity investments in proportion to their holdings of a particular class of capital.	HKAS 18.5
economic life	Either: (a) the period over which an asset is expected to be economically usable by one or more users; or (b) the number of production or similar units expected to be obtained from the asset by one or more users.	HKAS 17.4
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.	HKAS 39.9
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see HKAS 18), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	HKAS 39.9

embedded derivative	A component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.	HKAS 39.10
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees.	HKAS 19.7
employees and others providing similar services	Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, ie those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.	HKFRS 2.A
entity-specific value	The present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.	HKAS 16.6, HKAS 38.8
equity	The residual interest in the assets of the entity after deducting all its liabilities.	F.49(c)
equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	HKAS 32.11, HKFRS 2.A
equity instrument granted	The right (conditional or unconditional) to an equity instrument of the entity conferred by the entity on another party, under a share-based payment arrangement.	HKFRS 2.A
equity interests	In HKFRS 3 is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.	HKFRS 3.A

equity method	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.	HKAS 28.2
equity-settled share-based payment transaction	A share-based payment transaction in which the entity (a) receives goods or services as consideration for its own equity instruments (including shares or share options), or (b) receives goods or services but has no obligation to settle the transaction with the supplier.	HKFRS 2.A
events after the reporting period	Those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).	HKAS 10.3
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	HKAS 21.8
exchange rate	The ratio of exchange for two currencies.	HKAS 21.8
expenses	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.	F.70(b)
experience adjustments	The effects of differences between previous actuarial assumptions and what has actually occurred.	HKAS 19.7
exploration and evaluation assets	Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.	HKFRS 6.A
exploration and evaluation expenditures	Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.	HKFRS 6.A

exploration for and evaluation of mineral resources	The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.	HKFRS 6.A
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	HKAS 2.6, (HKAS 16.6), HKAS 17.4, HKAS 18.7, (HKAS 19.7), (HKAS 20.3), HKAS 21.8, HKAS 32.11, (HKAS 38.8), HKAS 39.9, (HKAS 40.5), HKAS 41.8, HKFRS 1.A, HKFRS 3.A, HKFRS 4.A, HKFRS 5.A
fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.	HKFRS 2.A
fair value less costs to sell	The amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	HKAS 36.6
FIFO (first-in, first-out)	The assumption that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced.	HKAS 2.27
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.	HKAS 17.4

financial asset	Any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A and 16B of HKAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of HKAS 32, or instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.	HKAS 32.11
financial asset or financial liability held for trading	A financial asset or financial liability that: (a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).	HKAS 39.9
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.	HKAS 39.9, HKFRS 4.A

financial instrument	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.	HKAS 32.11
financial liability	Any liability that is: (a) a contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B of HKAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D of HKAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of HKAS 32.	HKAS 32.11

financial asset or financial liability at fair value through profit or loss	A financial asset or financial liability that meets either of the following conditions. (a) It meets the definition of held for trading. (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by HKAS 39 paragraph 11A (embedded derivatives) or when doing so results in more relevant information, because either (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in HKAS 24).	HKAS 39.9
financial position	The relationship of the assets, liabilities and equity of an entity, as reported in the balance sheet [statement of financial position].	F.47, HKAS 1.54
financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.	HKFRS 4.A
financial statements	A complete set of financial statements comprises: (a) a statement of financial position as at the end of the period; (b) a statement of comprehensive income for the period; (c) a statement of changes in equity for the period; (d) a statement of cash flows for the period; (e) notes, comprising a summary of significant accounting policies and other explanatory information; and (f) a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.	HKAS 1.10, (F.7)

financing activities	Activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.	HKAS 7.6
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	HKAS 39.9
firm purchase commitment	An agreement with an unrelated party, binding on both parties and usually legally enforceable, that (a) specifies all significant terms, including the price and timing of the transactions, and (b) includes a disincentive for non-performance that is sufficiently large to make performance highly probable.	HKFRS 5.A
first HKFRS financial statements	The first annual financial statements in which an entity adopts Hong Kong Financial Reporting Standards (HKFRSs), by an explicit and unreserved statement of compliance with HKFRSs.	HKFRS 1.A
first HKFRS reporting period	The latest reporting period covered by an entity's first HKFRS financial statements.	HKFRS 1.A
first-time adopter	An entity that presents its first HKFRS financial statements.	HKFRS 1.A
fixed price contract	A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.	HKAS 11.3
fixed production overheads	Those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration.	HKAS 2.12
forecast transaction	An uncommitted but anticipated future transaction.	HKAS 39.9
foreign currency	A currency other than the functional currency of the entity.	HKAS 21.8
foreign currency transaction	A transaction that is denominated in or requires settlement in a foreign currency.	HKAS 21.20
foreign operation	An entity that is a subsidiary, associate, joint venture or branch of the reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.	HKAS 21.8
forgivable loans	Loans which the lender undertakes to waive repayment of under certain prescribed conditions.	HKAS 20.3

functional currency	The currency of the primary economic environment in which the entity operates.	HKAS 21.8
funding (of post-employment benefits)	Contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.	HKAS 19.49
funding (of retirement benefits)	The transfer of assets to an entity (the fund) separate from the employer's entity to meet future obligations for the payment of retirement benefits.	HKAS 26.8
future economic benefit	The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.	F.53
gains	Increases in economic benefits and as such no different in nature from revenue.	F.75
general purpose financial statements	Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.	HKAS 1.7, F.6
going concern	The financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.	HKAS 1.25, (F.23)
goodwill	An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.	HKFRS 3.A
government	Government, government agencies and similar bodies whether local, national or international.	HKAS 20.3 HKAS 24.9 (Revised)
government assistance	Action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.	HKAS 20.3
government grants	Assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.	HKAS 20.3

government-related entity	An entity that is controlled, jointly controlled or significantly influenced by a government.	HKAS 24.9 (Revised)
grant date	The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.	HKFRS 2.A
grants related to assets	Government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.	HKAS 20.3
grants related to income	Government grants other than those related to assets.	HKAS 20.3
gross investment in the lease	The aggregate of: (a) the minimum lease payments receivable by the lessor under a finance lease, and (b) any unguaranteed residual value accruing to the lessor.	HKAS 17.4
group	A parent and all its subsidiaries.	HKAS 21.8, HKAS 27.4
group administration (employee benefit) plans	An aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees.	HKAS 19.33
group of biological assets	An aggregation of similar living animals or plants.	HKAS 41.5
guaranteed benefits	Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.	HKFRS 4.A
guaranteed element	An obligation to pay guaranteed benefits, included in a contract that contains a discretionary participation feature.	HKFRS 4.A

guaranteed residual value	(a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.	HKAS 17.4
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.	HKAS 41.5
hedge effectiveness	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see HKAS 39 paragraphs AG105–AG113).	HKAS 39.9
hedged item	An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged (HKAS 39 paragraphs 78–84 and AG98–AG101 elaborate on the definition of hedged items).	HKAS 39.9
hedging instrument	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item (IAS 39 paragraphs 72–77 and AG94–AG97 elaborate on the definition of a hedging instrument).	HKAS 39.9
held for trading	See 'financial asset or financial liability held for trading'.	HKAS 39.9

Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity (see HKAS 39 paragraphs AG16-AG25) other than: (a) those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity designates as available for sale; and (c) those that meet the definition of loans and receivables. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassification that: (i) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.	HKAS 39.9
highly probable	Significantly more likely than probable.	HKFRS 5.A
hire purchase contract	The definition of a lease includes contracts for the hire of an asset that contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.	HKAS 17.6
historical cost	A measurement basis according to which assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.	F.100(a)

Hong Kong Financial Reporting Standards (HKFRSs)	Standards and Interpretations adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise: (a) Hong Kong Financial Reporting Standards; (b) Hong Kong Accounting Standards; (c) HK(IFRIC) Interpretations; and (d) HK(SIC) Interpretations.	HKAS 1.7, HKAS 8.5, HKFRS 1.A
hyperinflation	Loss of purchasing power of money at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following: (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power. (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency. (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short. (d) interest rates, wages and prices are linked to a price index. (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.	HKAS 29.2–3
identifiable	An asset is identifiable if it either: (a) is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	HKFRS 3.A
impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.	HKAS 16.6, (HKAS 36.6), HKAS 38.8

impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	HKAS 1.7, (HKAS 8.5)
imputed rate of interest	The more clearly determinable of either: (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.	HKAS 18.11
inception of a lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.	HKAS 17.4
income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.	F.70(a)
incremental borrowing rate of interest (lessee's)	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	HKAS 17.4
indirect method of reporting cash flows from operating activities	A method whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.	HKAS 7.18(b)
initial direct costs	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or dealer lessors.	HKAS 17.4
insurance asset	An insurer's net contractual rights under an insurance contract.	HKFRS 4.A
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. (See HKFRS 4 Appendix B for guidance on this definition.)	HKFRS 4.A
insurance liability	An insurer's net contractual obligations under an insurance contract.	HKFRS 4.A
insurance risk	Risk, other than financial risk, transferred from the holder of a contract to the issuer.	HKFRS 4.A

insured event	An uncertain future event that is covered by an insurance contract and creates insurance risk.	HKFRS 4.A
insurer	The party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.	HKFRS 4.A
intangible asset	An identifiable non-monetary asset without physical substance.	HKAS 38.8, HKFRS 3.A
interest cost (for an employee benefit plan)	The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.	HKAS 19.7
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments and (b) the unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.	HKAS 17.4
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	HKFRS 7.A
interim financial report	A financial report containing either a complete set of financial statements (as described in HKAS 1) or a set of condensed financial statements (as described in HKAS 34) for an interim period.	HKAS 34.4
interim period	A financial reporting period shorter than a full financial year.	HKAS 34.4
intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15,* on a share with a fair value of CU20, has an intrinsic value of CU5.	HKFRS 2.A

* Monetary items are denominated in 'currency units (CU)'.

inventories	Assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. In the case of a service provider, inventories include the costs of the service, as described in HKAS 2 paragraph 19, for which the entity has not yet recognised the related revenue (see HKAS 18).	HKAS 2.6, HKAS 2.8
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	HKAS 7.6
investment property	Property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.	HKAS 40.5
investor in a joint venture	A party to a joint venture that does not have joint control over that joint venture.	HKAS 31.3
joint control	The contractually agreed sharing of control over an economic activity.	HKAS 24.9
joint control	The contractually agreed sharing of control over an economic activity; it exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).	HKAS 28.2, HKAS 31.3
joint venture	A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.	HKAS 31.3,
jointly controlled entity	A joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.	HKAS 31.24

key management personnel	Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.	HKAS 24.9
lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.	HKAS 17.4
lease term	The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.	HKAS 17.4
legal obligation	An obligation that derives from: (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law.	HKAS 37.10
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	HKAS 17.4
liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	HKAS 37.10, F.49(b)
liability adequacy test	An assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased), based on a review of future cash flows.	HKFRS 4.A
liquidity	The availability of cash in the near future after taking account of financial commitments over this period.	F.16
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	HKFRS 7.A
loans payable	Financial liabilities other than short-term trade payables on normal credit terms.	HKFRS 7.A

Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.	HKAS 39.9
losses	Decreases in economic benefits and as such no different in nature from other expenses.	F.79
market condition	A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.	HKFRS 2.A
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.	HKFRS 7.A
master netting arrangement	An arrangement providing for an entity that undertakes a number of financial instrument transactions with a single counterparty to make a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.	HKAS 32.50
matching of costs with revenues	A process in which expenses are recognised in the income statement [statement of comprehensive income] on the basis of a direct association between the costs incurred and the earning of specific items of income. This process involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. However, the application of the matching concept does not allow the recognition of items in the balance sheet [statement of financial position] which do not meet the definition of assets or liabilities.	F.95

material	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.	HKAS 1.7, HKAS 8.5
materiality	Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.	F.30
measurement	The process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet [statement of financial position] and income statement [statement of comprehensive income].	F.99
measurement date	The date at which the fair value of the equity instruments granted is measured for the purposes of HKFRS 2. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.	HKFRS 2.A
minimum lease payments	The payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with: (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) for a lessor, any residual value guaranteed to the lessor by: (i) the lessee; (ii) a party related to the lessee; or (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.	HKAS 17.4
minority interest	See ‘non-controlling interest’	
monetary assets	Money held and assets to be received in fixed or determinable amounts of money.	HKAS 38.8
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.	HKAS 21.8

monetary items	Money held and items to be received or paid in money.	HKAS 29.12
multi-employer (benefit) plans	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) pool the assets contributed by various entities that are not under common control; and (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.	HKAS 19.7
mutual entity	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	HKFRS 3.A
net assets available for benefits	The assets of a plan less liabilities other than the actuarial present value of promised retirement benefits.	HKAS 26.8
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets of that operation.	HKAS 21.8
net investment in the lease	The gross investment in the lease discounted at the interest rate implicit in the lease.	HKAS 17.4
net realisable value	The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.	HKAS 2.6–7
neutrality	Freedom from bias of the information contained in financial statements.	F.36
non-adjusting events after the reporting period	See 'events after the reporting period'	

non-cancellable lease	A lease that is cancellable only: (a) upon the occurrence of some remote contingency; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.	HKAS 17.4
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent.	HKAS 27.4, HKFRS 3.A
non-current asset	An asset that does not meet the definition of a current asset.	HKFRS 5.A
normal capacity of production facilities	The production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.	HKAS 2.13
notes	Notes contain information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.	HKAS 1.7
obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	HKAS 37.10
obligation	A duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.	F.60
offsetting	See 'set-off, legal right of'	
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.	HKAS 37.10
opening HKFRS statement of financial position	An entity's statement of financial position at the date of transition to HKFRSs.	HKFRS 1.A

operating activities	The principal revenue-producing activities of an entity and other activities that are not investing or financing activities.	HKAS 7.6, HKAS 14.8
operating cycle	The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.	HKAS 1.68
operating lease	A lease other than a finance lease.	HKAS 17.4
operating segment	An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.	HKFRS 8.A
options, warrants and their equivalents	Financial instruments that give the holder the right to purchase ordinary shares.	HKAS 33.5
ordinary equity holders	Holders of ordinary shares.	HKAS 33.5–9
ordinary share	An equity instrument that is subordinate to all other classes of equity instruments.	HKAS 33.5
originated loans and receivables	See 'loans and receivables'	
other comprehensive income	Items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other HKFRSs.	HKAS 1.7
other long-term employee benefits	Employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.	HKAS 19.7
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.	HKFRS 7.A

owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.	HKAS 40.5
owners	Holders of instruments classified as equity.	HKAS 1.7
owners	In HKFRS 3 owners is used broadly to include holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.	HKFRS 3.A
parent	An entity that has one or more subsidiaries.	HKAS 27.4, HKFRS 3.A
participants	The members of a retirement benefit plan and others who are entitled to benefits under the plan.	HKAS 26.8
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.	HKFRS 7.A
past service cost	The change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases).	HKAS 19.7
percentage of completion method	The recognition of revenue and expenses by reference to the stage of completion of a contract. Under this method contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.	HKAS 11.25
performance	The relationship of the income and expenses of an entity, as reported in the income statement [statement of comprehensive income].	F.47
plan assets (of an employee benefit plan)	(a) Assets held by a long-term employee benefit fund; and (b) qualifying insurance policies.	HKAS 19.7
policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.	HKFRS 4.A
post-employment benefits	Employee benefits (other than termination benefits) which are payable after the completion of employment.	HKAS 19.7

post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	HKAS 19.7
potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares.	HKAS 33.5
presentation currency	The currency in which the financial statements are presented.	HKAS 21.8
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.	F.100(d)
present value of a defined benefit obligation	See 'defined benefit obligation (present value of)'	HKAS 19.7
previous GAAP	The basis of accounting that a first-time adopter used immediately before adopting HKFRSs.	HKFRS 1.A
primary financial instruments	Financial instruments, such as receivables, payables and equity securities, that are not derivative financial instruments.	HKAS 32.AG15
prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.	HKAS 8.5
probable	More likely than not.	HKFRS 5.A, (HKAS 37.23)
profit	The residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. Any amount over and above that required to maintain the capital at the beginning of the period is profit.	F.105, F.107
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.	HKAS 1.7

projected unit credit method	An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).	HKAS 19.64–66
property, plant and equipment	Tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.	HKAS 16.6
proportionate consolidation	A method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.	HKAS 31.3
prospective application	Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are: (a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.	HKAS 8.5
provision	A liability of uncertain timing or amount.	HKAS 37.10
prudence	The inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.	F.37
put options (on ordinary shares)	Contracts that give the holder the right to sell ordinary shares at a specified price for a given period.	HKAS 33.5
puttable instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.	HKAS 32.11
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	HKAS 23.5

qualifying insurance policy	An insurance policy issued by an insurer that is not a related party (as defined in HKAS 24) of the reporting entity, if the proceeds of the policy: (a) can be used only to pay or fund employee benefits under a defined benefit plan; (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	HKAS 19.7
realisable value	The amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal.	F.100(c)
reclassification adjustments	Amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.	HKAS 1.7
reclassification date	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.	HKFRS 9.A
recognition	The process of incorporating in the balance sheet [statement of financial position] or income statement [statement of comprehensive income] an item that meets the definition of an element and satisfies the following criteria for recognition: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.	F.82–83
recoverable amount	The higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use.	HKAS 16.6, HKAS 36.6, HKFRS 5.A
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.	HKAS 39.9
reinsurance assets	A cedant's net contractual rights under a reinsurance contract.	HKFRS 4.A

reinsurance contract	An insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant.	HKFRS 4.A
reinsurer	The party that has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs.	HKFRS 4.A
related party	A party is related to an entity if: (a) directly, or indirectly through one or more intermediaries, the party: (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); (ii) has an interest in the entity that gives it significant influence over the entity; or (iii) has joint control over the entity; (b) the party is an associate (as defined in HKAS 28) of the entity; (c) the party is a joint venture in which the entity is a venturer (see HKAS 31); (d) the party is a member of the key management personnel of the entity or its parent; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.	HKAS 24.9

related party	A person or entity that is related to the entity that is preparing its financial statements (in HKAS 24 referred to as the 'reporting entity'). (a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others). (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member). (iii) Both entities are joint ventures of the same third party. (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity. (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity. (vi) The entity is controlled or jointly controlled by a person identified in (a). (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).	HKAS 24.9 (Revised)
related party transaction	A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.	HKAS 24.9
relevance	Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.	F.26

reliability	Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.	F.31
reload feature	A feature that provides for an automatic grant of additional share options whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.	HKFRS 2.A
reload option	A new share option granted when a share is used to satisfy the exercise price of a previous share option.	HKFRS 2.A
reportable segment	An operating segment for which HKFRS 8 requires information to be disclosed.	HKFRS 8.11
reporting entity	An entity for which there are users who rely on the financial statements as their major source of financial information about the entity.	F.8
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	HKAS 38.8
residual value (of an asset)	The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.	HKAS 16.6, (HKAS 38.8)
restructuring	A programme that is planned and controlled by management, and materially changes either: (a) the scope of a business undertaken by an entity; or (b) the manner in which that business is conducted.	HKAS 37.10
retirement benefit plans	Arrangements whereby an entity provides benefits for its employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the employer's contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices. (See also 'post-employment benefit plans'.)	HKAS 26.8
retrospective application	Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.	HKAS 8.5
retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.	HKAS 8.5

return on plan assets (of an employee benefit plan)	Interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.	HKAS 19.7
revaluation	Restatement of assets and liabilities.	F.81
revalued amount of an asset	The fair value of an asset at the date of a revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.	HKAS 16.31
revenue	The gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.	HKAS 18.7
reverse acquisition	An acquisition where the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. This might be the case when, for example, a private entity arranges to have itself 'acquired' by a smaller public entity as a means of obtaining a stock exchange listing.	HKFRS 3.B
rewards associated with a leased asset	Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.	HKAS 17.7
risks associated with a leased asset	Risks include possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions.	HKAS 17.7
sale and leaseback transaction	The sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package.	HKAS 17.58
separate financial statements	Those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.	HKAS 27.4, HKAS 28.2, HKAS 31.3
set-off, legal right of	A debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor.	HKAS 32.45
settlement (of employee benefit obligations)	A transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.	HKAS 19.112

settlement date	The date that a financial asset is delivered to or by an entity.	HKAS 39.AG56
settlement value	The undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.	F.100(c)
share-based payment arrangement	An agreement between the entity (or another group* entity or any shareholder of the group entity) and another party (including an employee) that entitles the other party to receive (a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or (b) equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.	HKFRS 2.A
share-based payment transaction	A transaction in which the entity (a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or (b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.	HKFRS 2.A
share option	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specific period of time.	HKFRS 2.A
short seller	An entity that sells financial assets that it has borrowed and does not yet own.	HKAS 39.AG15
short-term employee benefits	Employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.	HKAS 19.7
significant influence	The power to participate in the financial and operating policy decisions of an entity, but not control over those policies. Significant influence may be gained by share ownership, statute or agreement.	HKAS 24.9, (HKAS 28.2), (HKAS 31.3)

* A 'group' is defined in paragraph 4 of HKAS 27 *Consolidated and Separate Financial Statements* as 'a parent and its subsidiaries' from the perspective of the reporting entity's ultimate parent.

solvency	The availability of cash over the longer term to meet financial commitments as they fall due.	F.16
spot exchange rate	The exchange rate for immediate delivery.	HKAS 21.8
state (employee benefit) plan	Employee benefit plans established by legislation to cover all entities (or all entities in a particular category, for example a specific industry) and operated by national or local government or by another body (for example an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.	HKAS 19.37
subsidiary	An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).	HKFRS 3.A, HKAS 27.4, HKAS 28.2
substance over form	The principle that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.	F.35, (HKAS 8.7–10)
tax base of an asset or liability	The amount attributed to that asset or liability for tax purposes.	HKAS 12.5
tax expense (tax income)	The aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax. Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).	HKAS 12.5, HKAS 12.6
taxable profit (tax loss)	The profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).	HKAS 12.5
taxable temporary differences	Temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.	HKAS 12.5
temporary differences	Differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either: (a) taxable temporary differences; or (b) deductible temporary differences.	HKAS 12.5

termination benefits	Employee benefits payable as a result of either: (a) an entity's decision to terminate an employee's employment before the normal retirement date; or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.	HKAS 19.7
total comprehensive income	The change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.	HKAS 1.7
trade date	The date that an entity commits itself to purchase or sell an asset.	HKAS 39.AG55
transaction costs (financial instruments)	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see HKAS 39 paragraph AG13). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.	HKAS 39.9
transitional liability (defined benefit plans)	For an entity on first adopting HKAS 19: (a) the present value of the obligation at the date of adoption; (b) minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly; (c) minus any past service cost that shall be recognised in later periods.	HKAS 19.154
treasury shares	An entity's own equity instruments, held by the entity or other members of the consolidated group.	HKAS 32.33
unbundle	Account for the components of a contract as if they were separate contracts.	HKFRS 4.A
understandability	Information provided in financial statements has the quality of understandability when it is comprehensible to users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.	F.25
unearned finance income	The difference between: (a) the gross investment in the lease, and (b) the net investment in the lease.	HKAS 17.4
unguaranteed residual value	That portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	HKAS 17.4

useful life	The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the asset are expected to be consumed by the entity.	HKAS 17.4
useful life	Either: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by the entity.	HKAS 16.6, HKAS 36.6, HKAS 38.8
value in use	The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.	HKFRS 5.A
value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.	HKAS 36.6
variable production overheads	Those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.	HKAS 2.12
venturer	A party to a joint venture that has joint control over that joint venture.	HKAS 31.3
vest	To become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any vesting conditions.	HKFRS 2.A
vested benefits	Benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.	HKAS 26.8
vested employee benefits	Employee benefits that are not conditional on future employment.	HKAS 19.7
vesting conditions	The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market condition.	HKFRS 2.A

vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied	HKFRS 2.A
warrant	A financial instrument that gives the holder the right to purchase ordinary shares.	HKAS 33.5
weighted average cost formula	Under this formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.	HKAS 2.27
weighted average number of ordinary shares outstanding during the period	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.	HKAS 33.20