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

# MEMBERS' HANDBOOK

## Update No. 161

*(Issued 19 November 2014)*

**_Handbook Improvements only_**

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

Amendments to the following Standards, Basis for Conclusions and Implementation Guidance were previously set out in the Appendix to the Standards as they were not yet effective. The Institute has taken this opportunity to incorporate the amendments applicable on 1 January 2014 in the relevant affected Standards, Basis for Conclusions and Implementation Guidance.

**HONG KONG ACCOUNTING STANDARDS (HKAS)**

| | | |
|---|---|---|
| HKAS 7<br>*Statement of Cash Flows* | Replace the cover page, pages 3, 10 and 12 with revised cover page, pages 3, 10 and 12. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKAS 12<br>*Income Taxes* | Replace the cover page, pages 27, 30 and 36 with revised cover page, pages 27, 30 and 36. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKAS 24<br>*Related Party Disclosures* | Replace the cover page, pages 5, 7 and 11 with revised cover page, pages 5, 7 and 11. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |

| | | |
|---|---|---|
| HKAS 32<br>*Financial Instruments: Presentation*<br>(Standard) | Replace the cover page, pages 3-4, 24-25 and 27-39 with revised cover page, pages 3-4, 24-25 and 27-39. Discard existing page 40. | Amendments due to<br>- *Offsetting Financial Assets and Financial Liabilities* (Amendment to HKAS 32)<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKAS 32<br>*Financial Instruments: Presentation*<br>(Basis for Conclusions) | Replace the cover page, pages 3 and 19 with revised cover page, pages 3 and 19. Insert pages 19A-19F after page 19. Discard existing pages 25-31. | |
| HKAS 34<br>*Interim Financial Reporting* | Replace the cover page, pages 3, 9 and 13 with revised cover page, pages 3, 9 and 13. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKAS 36<br>*Impairment of Assets*<br>(Standard) | Replace the cover page, pages 4, 36-38, 40-41 and 50 with revised cover page, pages 4, 36-38, 40-41 and 50. Insert page 37A after page 37. Discard existing pages 51-52. | Amendments due to<br>- *Recoverable Amount Disclosures for Non-Financial Assets* (Amendment to HKAS 36) |
| HKAS 36<br>*Impairment of Assets*<br>(Basis for Conclusions) | Replace the cover page, pages 4 and 66 with revised cover page, pages 4 and 66. Insert pages 61A-61C after page 61 and page 66A after page 66. | |
| HKAS 39<br>*Financial Instruments: Recognition and Measurement*<br>(Standard) | Replace the cover page, pages 5, 35, 38, 40-41, 43, 47 and 89 with revised cover page, pages 5, 35, 38, 40-41, 43, 47 and 89. Insert page 38A after page 38 and page 40A after page 40. Discard existing pages 97-99. | Amendments due to<br>- *Novation of Derivatives and Continuation of Hedge Accounting* (Amendment to HKAS 39)<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKAS 39<br>*Financial Instruments: Recognition and Measurement*<br>(Basis for Conclusions) | Replace the cover page, pages 4, 12, 69 and 83-84 with revised cover page, pages 4, 12, 69 and 83-84. Insert pages 69A-69D after page 69. Discard existing 84A-84B. | |
| HKAS 39<br>*Financial Instruments: Recognition and Measurement*<br>(Implementation Guidance) | Replace the cover page, pages 3 and 61-62 with revised cover page, pages 3 and 61-62. | |

**HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)**

| | | |
|---|---|---|
| HKFRS 1<br>*First-time Adoption of Hong Kong Financial Reporting Standards*<br>(Standard) | Replace the cover page, pages 15, 26 and 30 with revised cover page, pages 15, 26 and 30. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKFRS 1<br>*First-time Adoption of Hong Kong Financial Reporting Standards*<br>(Basis for Conclusions) | Replace the cover page, pages 13 and 22 with revised cover page, pages 13 and 22. | |
| HKFRS 3<br>*Business Combinations*<br>(Standard) | Replace the cover page, pages 6, 8-9 and 19 with revised cover page, pages 6, 8-9 and 19. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKFRS 3<br>*Business Combinations*<br>(Basis for Conclusions) | Replace the cover page and pages 11 and 81 with revised cover page and pages 11 and 81. | |
| HKFRS 5<br>*Non-current Assets Held for Sale and Discontinued Operations*<br>(Standard) | Replace the cover page and page 13 with revised cover page and page 13. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKFRS 5<br>*Non-current Assets Held for Sale and Discontinued Operations*<br>(Implementation Guidance) | Replace the cover page and page 11 with revised cover page and page 11. | |
| HKFRS 7<br>Financial Instruments: Disclosures<br>(Standard) | Replace the cover page and page 24 with revised cover page and page 24. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKFRS 12<br>*Disclosure of Interests in Other Entities*<br>(Standard) | Replace the Standard with revised Standard. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |
| HKFRS 12<br>*Disclosure of Interests in Other Entities*<br>(Basis for Conclusions) | Replace the cover page, pages 2-4, 6 and 15 with revised cover page, pages 2-4, 6 and 15. Insert pages 15A-15B after page 15. Discard existing pages 28-29. | |

| | | |
|---|---|---|
| HKFRS 13<br>Fair Value Measurement<br>(Basis for Conclusions) | Replace the cover page, pages 2 and 51-52 with revised cover page, pages 2 and 51-52. | Amendments due to<br>- *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27) |

**GLOSSARY OF TERMS**

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

# MEMBERS' HANDBOOK
# CONTENTS OF VOLUME II

(Updated to November 2014)


| | | Issue/(Review date) |
|---|---|---|
| | **PREFACE AND FRAMEWORK** | |
| PREFACE | Preface to Hong Kong Financial Reporting Standards | 10/06(9/10) |
| CONCEPTUAL FRAMEWORK | Conceptual Framework for Financial Reporting | 10/10 |
| | **HONG KONG ACCOUNTING STANDARDS (HKAS)** | |
| HKAS 1 Revised | Presentation of Financial Statements | 12/07 (5/14) |
| HKAS 2 | Inventories | 3/04(2/14) |
| HKAS 7 | Statement of Cash Flows | 12/04(11/14) |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | 9/04(2/14) |
| HKAS 10 | Events after the Reporting Period | 3/04(2/14) |
| HKAS 11 | Construction Contracts | 12/04(3/10) |
| HKAS 12 | Income Taxes | 11/04(11/14) |
| HKAS 16 | Property, Plant and Equipment | 11/05(8/14) |
| HKAS 17 | Leases | 12/04(2/14) |
| HKAS 18 | Revenue | 11/04(5/14) |
| HKAS 19 (2011) | Employee Benefits | 7/11(12/13) |
| HKAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | 12/04(2/14) |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates | 3/04(5/14) |
| HKAS 23 Revised | Borrowing Costs | 6/07(3/10) |
| HKAS 24 Revised | Related Party Disclosures | 11/09 (11/14) |
| HKAS 26 | Accounting and Reporting by Retirement Benefit Plans | 8/04 |
| HKAS 27 (2011) | Separate Financial Statements | 6/11(09/14) |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures | 6/11(10/14) |

| | | Issue/(Review date) |
|---|---|---|
| HKAS 29 | Financial Reporting in Hyperinflationary Economies | 3/04(4/10) |
| HKAS 32 | Financial Instruments: Presentation | 11/04(11/14) |
| HKAS 33 | Earnings per Share | 3/04(5/14) |
| HKAS 34 | Interim Financial Reporting | 10/04(11/14) |
| HKAS 36 | Impairment of Assets | 8/04(11/14) |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets | 11/04(3/10) |
| HKAS 38 | Intangible Assets | 8/04(6/14) |
| HKAS 39 | Financial Instruments: Recognition and Measurement | 1/06(11/14) |
| HKAS 40 | Investment Property | 11/05(6/14) |
| HKAS 41 | Agriculture | 12/04(8/14) |
| | **HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)** | |
| HKFRS 1 Revised | First-time Adoption of Hong Kong Financial Reporting Standards | 12/08(11/14) |
| HKFRS 2 | Share-based Payment | 4/04(6/14) |
| HKFRS 3 Revised | Business Combinations | 3/08(11/14) |
| HKFRS 4 | Insurance Contracts | 3/06(6/14) |
| HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 8/04(11/14) |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources | 2/05(2/10) |
| HKFRS 7 | Financial Instruments: Disclosures | 9/05(11/14) |
| HKFRS 8 | Operating Segments | 3/07(6/14) |
| HKFRS 9 | Financial Instruments | 11/09 (09/14) |
| HKFRS 9 | Financial Instruments (Hedge Accounting) | 12/13 |
| HKFRS 9 (2014) | Financial Instruments | 09/14 |
| HKFRS 10 | Consolidated Financial Statements | 6/11(10/14) |
| HKFRS 11 | Joint Arrangements | 6/11(6/14) |
| HKFRS 12 | Disclosure of Interests in Other Entities | 6/11(11/14) |
| HKFRS 13 | Fair Value Measurement | 6/11(11/14) |
| HKFRS 14 | Regulatory Deferral Accounts | 2/14 |
| HKFRS 15 | Revenue from Contracts with Customers | 7/14 |
| ANNUAL IMPROVEMENTS | Annual Improvements to HKFRSs 2010-2012 Cycle | 1/14 |
| ANNUAL IMPROVEMENTS | Annual Improvements to HKFRSs 2011-2013 Cycle | 1/14 |
| ANNUAL IMPROVEMENTS | Annual Improvements to HKFRSs 2012-2014 Cycle | 10/14 |

| | | *Issue/(Review date)* |
|---|---|---|
| HK(SIC)-Int 29 | Service Concession Arrangements: Disclosures | 12/04(8/10) |
| HK(SIC)-Int 31 | Revenue – Barter Transactions Involving Advertising Services | 12/04(5/14) |
| HK(SIC)-Int 32 | Intangible Assets – Web Site Costs | 12/04(5/14) |
| GLOSSARY | Glossary of Terms Relating to Hong Kong Financial Reporting Standards | 3/08(11/14) |
| HKFRS-PE | **HONG KONG FINANCIAL REPORTING STANDARD FOR PRIVATE ENTITIES** | 4/10 (2/11) |
| | **SMALL AND MEDIUM-SIZED ENTITY FINANCIAL REPORTING FRAMEWORK AND FINANCIAL REPORTING STANDARD (SME-FRF & SME-FRS)** | |
| SME-FRF & SME-FRS | SME-FRF & SME-FRF | 8/05 (2/11) |
| SME-FRF & SME-FRS (Revised) | SME-FRF & SME-FRF (Revised) | 3/14(4/14) |
| | **ACCOUNTING GUIDELINES (AG)** | |
| AG 1 | Preparation and Presentation of Accounts from Incomplete Records | 3/84 |
| AG 5 | Merger Accounting for Common Control Combinations | 05/11 (11/13) |
| AG 7 | Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars | 3/06 |
| | **ACCOUNTING BULLETINS (AB)** | |
| AB 3 | Guidance on Disclosure of Directors' Remuneration | 1/00 |
| AB 4 | Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance | 5/10 |
| AB 5 | Guidance for the Preparation of a Business Review under the Hong Kong Companies Ordinance Cap. 622 | 7/14 |

HKAS 7

Revised ~~February~~ November 2014

*Hong Kong Accounting Standard 7*

# Statement of Cash Flows

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

# CONTENTS

*from paragraph*

## Hong Kong Accounting Standard 7
## *STATEMENT OF CASH FLOWS*


| | |
|---|---|
| **OBJECTIVE** | |
| **SCOPE** | **1** |
| **BENEFITS OF CASH FLOW INFORMATION** | **4** |
| **DEFINITIONS** | **6** |
| **Cash and cash equivalents** | **7** |
| **PRESENTATION OF A STATEMENT OF CASH FLOWS** | **10** |
| **Operating activities** | **13** |
| **Investing activities** | **16** |
| **Financing activities** | **17** |
| **REPORTING CASH FLOWS FROM OPERATING ACTIVITIES** | **18** |
| **REPORTING CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES** | **21** |
| **REPORTING CASH FLOWS ON A NET BASIS** | **22** |
| **FOREIGN CURRENCY CASH FLOWS** | **25** |
| **INTEREST AND DIVIDENDS** | **31** |
| **TAXES ON INCOME** | **35** |
| **INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES** | **37** |
| **CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES AND OTHER BUSINESSES** | **39** |
| **NON-CASH TRANSACTIONS** | **43** |
| **COMPONENTS OF CASH AND CASH EQUIVALENTS** | **45** |
| **OTHER DISCLOSURES** | **48** |
| **EFFECTIVE DATE** | **53** |
| **APPENDICES** | |
| **APPENDIX: Comparison with International Accounting Standards** | |
| **APPENDIX A: Statement of cash flows for an entity other than a financial institution** | |
| **APPENDIX B: Statement of cash flows for a financial institution** | |

**BASIS FOR CONCLUSIONS**


Hong Kong Accounting Standard 7 *Statement of Cash Flows* (HKAS 7) is set out in paragraphs 1-~~57~~58. All the paragraphs have equal authority. HKAS 7 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Changes in ownership interests in subsidiaries and other businesses

**39 The aggregate cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.**

**40 An entity shall disclose, in aggregate, in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:**

**(a) the total consideration paid or received;**

**(b) the portion of the consideration consisting of cash and cash equivalents;**

**(c) the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost; and**

**(d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiaries or other businesses over which control is obtained or lost, summarised by each major category.**

40A An investment entity, as defined in HKFRS 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.

41 The separate presentation of the cash flow effects of obtaining or losing control of subsidiaries or other businesses as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of losing control are not deducted from those of obtaining control.

42 The aggregate amount of the cash paid or received as consideration for obtaining or losing control of subsidiaries or other businesses is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of as part of such transactions, events or changes in circumstances.

42A Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in HKFRS 10, and is required to be measured at fair value through profit or loss.

42B Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions (see HKFRS 10 ~~*Consolidated Financial Statements*~~), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

## Non-cash transactions

**43 Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.**

© Copyright 

52 The disclosure of segmental cash flows enables users to obtain a better understanding of the relationship between the cash flows of the business as a whole and those of its component parts and the availability and variability of segmental cash flows.

## Effective date

**53 This Hong Kong Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged.**

**54 HKAS 27 (as amended in 2008) amended paragraphs 39 – 42 and added paragraphs 42A and 42B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period. The amendments shall be applied retrospectively.**

55 Paragraph 14 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply paragraph 68A of HKAS 16.

56 Paragraph 16 was amended by *Improvements to HKFRSs* issued in May 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

57 HKFRS 10 and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 37, 38 and 42B and deleted paragraph 50(b). An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

58 *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011)), issued in December 2012, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

HKAS 12
Revised ~~May~~ November 2014

*Hong Kong Accounting Standard 12*

# Income Taxes

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

## Recognition of current and deferred tax

57 Accounting for the current and deferred tax effects of a transaction or other event is consistent with the accounting for the transaction or event itself. Paragraphs 58 to 68C implement this principle.

### Items recognised in profit or loss

**58 Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:**

**(a) a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity (see paragraphs 61A - 65); or**

**(b) a business combination (other than the acquisition by an investment entity, as defined in HKFRS 10 *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66 - 68).**

59 Most deferred tax liabilities and deferred tax assets arise where income or expense is included in accounting profit in one period, but is included in taxable profit (tax loss) in a different period. The resulting deferred tax is recognised in profit or loss. Examples are when:

(a) interest, royalty or dividend revenue is received in arrears and is included in accounting profit on a time apportionment basis in accordance with HKAS 18 *Revenue*, but is included in taxable profit (tax loss) on a cash basis; and

(b) costs of intangible assets have been capitalised in accordance with HKAS 38, and are being amortised in profit or loss, but were deducted for tax purposes when they were incurred.

60 The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result, for example, from:

(a) a change in tax rates or tax laws;

(b) a reassessment of the recoverability of deferred tax assets; or

(c) a change in the expected manner of recovery of an asset.

The resulting deferred tax is recognised in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss (see paragraph 63).

### Items recognised outside profit or loss

**61 [Deleted]**

**61A Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:**

**(a) in other comprehensive income, shall be recognised in other comprehensive income (see paragraph 62).**

**(b) directly in equity, shall be recognised directly in equity (see paragraph 62A).**

### Current and deferred tax arising from share-based payment transactions

68A In some tax jurisdictions, an entity receives a tax deduction (ie an amount that is deductible in determining taxable profit) that relates to remuneration paid in shares, share options or other equity instruments of the entity. The amount of that tax deduction may differ from the related cumulative remuneration expense, and may arise in a later accounting period. For example, in some jurisdictions, an entity may recognise an expense for the consumption of employee services received as consideration for share options granted, in accordance with HKFRS 2 *Share-based Payment*, and not receive a tax deduction until the share options are exercised, with the measurement of the tax deduction based on the entity's share price at the date of exercise.

68B As with the research costs discussed in paragraphs 9 and 26(b) of this Standard, the difference between the tax base of the employee services received to date (being the amount the taxation authorities will permit as a deduction in future periods), and the carrying amount of nil, is a deductible temporary difference that results in a deferred tax asset. If the amount the taxation authorities will permit as a deduction in future periods is not known at the end of the period, it shall be estimated, based on information available at the end of the period. For example, if the amount that the taxation authorities will permit as a deduction in future periods is dependent upon the entity's share price at a future date, the measurement of the deductible temporary difference should be based on the entity's share price at the end of the period.

68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

## Presentation

### Tax assets and tax liabilities

69 [Deleted]

70 [Deleted]

93 Paragraph 68 shall be applied prospectively from the effective date of HKFRS 3 (as revised in 2008) to the recognition of deferred tax assets acquired in business combinations.

94 Therefore, entities shall not adjust the accounting for prior business combinations if tax benefits failed to satisfy the criteria for separate recognition as of the acquisition date and are recognised after the acquisition date, unless the benefits are recognised within the measurement period and result from new information about facts and circumstances that existed at the acquisition date. Other tax benefits recognised shall be recognised in profit or loss (or, if this Standard so requires, outside profit or loss).

95 HKFRS 3 (as revised in 2008) amended paragraphs 21 and 67 and added paragraphs 32A and 81(j) and (k). An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period.

96 *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

97 *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

98 Paragraph 52 was renumbered as 51A, paragraph 10 and the examples following paragraph 51A were amended, and paragraphs 51B and 51C and the following example and paragraphs 51D, 51E and 99 were added by *Deferred Tax: Recovery of Underlying Assets*, issued in December 2010. An entity shall apply those amendments for annual periods beginning on or after 1 January 2012. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

98A HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 2, 15, 18(e), 24, 38, 39, 43–45, 81(f), 87 and 87C. An entity shall apply those amendments when it applies HKFRS 11.

98B *Presentation of Items of Other Comprehensive Income* (Amendments to HKAS 1), issued in July 2011, amended paragraph 77 and deleted paragraph 77A. An entity shall apply those amendments when it applies HKAS 1 as amended in July 2011.

98C *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraphs 58 and 68C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## Withdrawal of HK(SIC)- Int 21

99 The amendments made by *Deferred Tax: Recovery of Underlying Assets*, issued in December 2010, supersede Hong Kong (SIC) Interpretation 21 *Income Taxes—Recovery of Revalued Non-Depreciable Assets.*

**Acknowledgement**

**The Hong Kong Institute of Certified Public Accountants is indebted to the Australian Accounting Research Foundation for granting permission to use material from its Standard AASB 1020 "Income taxes" as some of the explanatory guidance and illustrative examples in this Standard.**

© Copyright 

HKAS 24 (Revised)
Revised ~~February~~ November 2014

Effective for annual periods
beginning on or after 1 January 2011

*Hong Kong Accounting Standard 24*

# Related Party Disclosures

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

# Hong Kong Accounting Standard 24
# *Related Party Disclosures*

## Objective

1 The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

## Scope

**2 This Standard shall be applied in:**

**(a) identifying related party relationships and transactions;**

**(b) identifying outstanding balances, including commitments, between an entity and its related parties;**

**(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and**

**(d) determining the disclosures to be made about those items.**

**3 This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent or investors with joint control of, or significant influence over, an investee presented in accordance with HKFRS 10 *Consolidated Financial Statement* or HKAS 27 *Separate Financial Statements*. This Standard also applies to individual financial statements.**

4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.

## Purpose of related party disclosures

5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence.

6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

7 The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.

*Compensation* **includes all employee benefits (as defined in HKAS 19 *Employee Benefits*) including employee benefits to which HKFRS 2 *Share-based Payment* 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.**

*Key management personnel* **are 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.**

*Government* **refers to government, government agencies and similar bodies whether local, national or international.**

**A** *government-related entity* **is an entity that is controlled, jointly controlled or significantly influenced by a government.**

**The terms 'control' and 'investment entity', 'joint control' and 'significant influence' are defined in HKFRS 10, HKFRS 11 *Joint Arrangements* and HKAS 28 (2011) *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those HKFRSs.**

10 In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

11 In the context of this Standard, the following are not related parties:

(a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

(b) two joint venturers simply because they share joint control of a joint venture.

(b) carried out on non-market terms;

(c) outside normal day-to-day business operations, such as the purchase and sale of businesses;

(d) disclosed to regulatory or supervisory authorities;

(e) reported to senior management;

(f) subject to shareholder approval.

## Effective date and transition

28 An entity shall apply this Standard retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted, either of the whole Standard or of the partial exemption in paragraphs 25-27 for government-related entities. If an entity applies either the whole Standard or that partial exemption for a period beginning before 1 January 2011, it shall disclose that fact.

28A HKFRS 10, HKFRS 11 *Joint Arrangements* and HKFRS 12, issued in June 2011, amended paragraphs 3, 9, 11(b), 15, 19(b) and (e) and 25. An entity shall apply those amendments when it applies HKFRS 10, HKFRS 11 and HKFRS 12.

28B *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraphs 4 and 9. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## Withdrawal of HKAS 24 (2004)

29 This Standard supersedes HKAS 24 *Related Party Disclosures* (as issued in 2004).

HKAS 32
Revised ~~May~~ November 2014

Effective for annual periods
beginning on or after 1 January 2005

*Hong Kong Accounting Standard 32*

# Financial Instruments:
# Presentation

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

# CONTENTS

*from paragraph*

**INTRODUCTION** **IN1**

## HONG KONG ACCOUNTING STANDARD 32
## *FINANCIAL INSTRUMENTS: PRESENTATION*

**OBJECTIVE** **2**

**SCOPE** **4**

**DEFINITIONS** **11**

**PRESENTATION** **15**

**Liabilities and equity** **15**

Puttable instruments 16A

Instruments, or components of instruments, that impose on the entity and obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation 16C

Reclassification of puttable instruments and 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 16E

No contractual obligation to deliver cash or another financial asset 17

Settlement in the entity's own equity instruments 21

Contingent settlement provisions 25

Settlement options 26

**Compound financial instruments** **28**

**Treasury shares** **33**

**Interest, dividends, losses and gains** **35**

**Offsetting a financial asset and a financial liability** **42**

**EFFECTIVE DATE AND TRANSITION** **96**

**WITHDRAWAL OF OTHER PRONOUNCEMENTS** **98**

**APPENDICES:**

**A Comparison with International Accounting Standards**

**APPENDIX: APPLICATION GUIDANCE** **AG1**

**DEFINITIONS** **AG3**

**Financial assets and financial liabilities** **AG3**

**Equity instruments** **AG13**

- The class of instruments that is subordinate to all other classes AG14A
- Total expected cash flows attributed to the instrument over the life of the instrument AG14E
- Transactions entered into by an instrument holder other than as owner of the entity AG14F
- No other financial instrument or contract with total cash flows that substantially fixes or restricts the residual return to the instrument holder AG14J

**Derivative financial instruments** **AG15**

**Contracts to buy or sell non-financial items** **AG20**

**PRESENTATION** **AG25**

**Liabilities and equity** **AG25**

- No contractual obligation to deliver cash or another financial asset AG25
- Settlement in the entity's own equity instruments AG27
- Contingent settlement provisions AG28
- Treatment in consolidated financial statements AG29

**Compound financial instruments** **AG30**

**Treasury shares** **AG36**

**Interest, dividends, losses and gains** **AG37**

**Offsetting a financial asset and a financial liability** **AG38A**

- Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' AG38A
- Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' AG38E

**BASIS FOR CONCLUSIONS**

**DISSENTING OPINIONS**

**ILLUSTRATIVE EXAMPLES**

> Hong Kong Accounting Standard 32 *Financial Instruments: Presentation* (HKAS 32) is set out in paragraphs 2–100 and Application Guidance. All the paragraphs have equal authority. HKAS 32 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

97B HKFRS 3 *Business Combinations* (as revised in 2008) deleted paragraph 4(c). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period. However, the amendment does not apply to contingent consideration that arose from a business combination for which the acquisition date preceded the application of HKFRS 3 (revised 2008). Instead, an entity shall account for such consideration in accordance with paragraphs 65A–65E of HKFRS 3 (as amended in 2010).

97C When applying the amendments described in paragraph 96A, an entity is required to split a compound financial instrument with an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation into separate liability and equity components. If the liability component is no longer outstanding, a retrospective application of those amendments to HKAS 32 would involve separating two components of equity. The first component would be in retained earnings and represent the cumulative interest accreted on the liability component. The other component would represent the original equity component. Therefore, an entity need not separate these two components if the liability component is no longer outstanding at the date of application of the amendments.

97D Paragraph 4 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of HKFRS 7, paragraph 1 of HKAS 28 and paragraph 1 of HKAS 31 issued in October 2008. An entity is permitted to apply the amendment prospectively.

97E Paragraphs 11 and 16 were amended by *Classification of Rights Issues* issued in October 2009. An entity shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

97F *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

97G Paragraph 97B was amended by *Improvements to HKFRSs* issued in May 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

97H *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

97I HKFRS 10 and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 4(a) and AG29. An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

97J HKFRS 13, issued in June 2011, amended the definition of fair value in paragraph 11 and amended paragraphs 23 and AG31. An entity shall apply those amendments when it applies HKFRS 13.

97K *Presentation of Items of Other Comprehensive Income* (Amendments to HKAS 1), issued in July 2011, amended paragraph 40. An entity shall apply that amendment when it applies HKAS 1 as amended in July 2011.

~~97L *[This paragraph refers to amendments with an effective date after 1 January 2013, and is therefore not included in this edition.]*~~

97L *Offsetting Financial Assets and Financial Liabilities* (Amendments to HKAS 32), issued in December 2011, deleted paragraph AG38 and added paragraphs AG38A–AG38F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively. Earlier application is permitted. If an entity applies those amendments from an earlier date, it shall disclose that fact and shall also make the disclosures required by *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to HKFRS 7) issued in December 2011.

97M *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to HKFRS 7), issued in December 2011, amended paragraph 43 by requiring an entity to disclose the information required in paragraphs 13B–13E of HKFRS 7 for recognised financial assets that are within the scope of paragraph 13A of HKFRS 7. An entity shall apply that amendment for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. An entity shall provide the disclosures required by this amendment retrospectively.

97N *Annual Improvements 2009–2011 Cycle*, issued in June 2012, amended paragraphs 35, 37 and 39 and added paragraph 35A. An entity shall apply that amendment retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

97O *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in December 2012, amended paragraph 4. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## Withdrawal of Other Pronouncements

98 This Standard, together with HKAS 39 *Financial Instruments: Recognition and Measurement*, supersede SSAP 24 Accounting for Investments in Securities issued in 1999.*

* In September 2005 the Institute relocated all disclosures relating to financial instruments to HKFRS 7 *Financial Instruments: Disclosures*.

# Appendix
# Application Guidance
# HKAS 32 *Financial Instruments: Presentation*

*This appendix is an integral part of the Standard.*

AG1 This Application Guidance explains the application of particular aspects of the Standard.

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in HKAS 39.

## Definitions (paragraphs 11-14)

### Financial assets and financial liabilities

AG3 Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.

AG4 Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

(a) trade accounts receivable and payable;

(b) notes receivable and payable;

(c) loans receivable and payable; and

(d) bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

AG5 Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.

AG6 'Perpetual' debt instruments (such as 'perpetual' bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example, an entity may issue a financial

© Copyright

instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 per cent applied to a stated par or principal amount of CU1,000.* Assuming 8 per cent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.

AG7 A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.

AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be insurance contracts within the scope of HKFRS 4.

AG9 Under HKAS 17 *Leases* a finance lease is regarded as primarily an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under the lease contract rather than the leased asset itself. An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. The lessor continues to account for the leased asset itself rather than any amount receivable in the future under the contract. Accordingly, a finance lease is regarded as a financial instrument and an operating lease is not regarded as a financial instrument (except as regards individual payments currently due and payable).

AG10 Physical assets (such as inventories, property, plant and equipment), leased assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.

AG11 Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

AG12 Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes is dealt with in HKAS 12. Similarly, constructive obligations, as defined in HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* do not arise from contracts and are not financial liabilities.

* In this guidance, monetary amounts are denominated in 'currency units' (CU).

## Equity instruments

AG13 Examples of equity instruments include non-puttable ordinary shares, some puttable instruments (see paragraphs 16A and 16B), some 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 (see paragraphs 16C and 16D), some types of preference shares (see paragraphs AG25 and AG26), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity's obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 22A). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as equity in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG27(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

AG14 A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 22A). Instead, any consideration paid for such a contract is deducted from equity.

### The class of instruments that is subordinate to all other classes (paragraphs 16A(b) and 16C(b))

AG14A One of the features of paragraphs 16A and 16C is that the financial instrument is in the class of instruments that is subordinate to all other classes.

AG14B When determining whether an instrument is in the subordinate class, an entity evaluates the instrument's claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.

AG14C An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity's net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.

AG14D If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

### Total expected cash flows attributable to the instrument over the life of the instrument (paragraph 16A(e))

AG14E The total expected cash flows of the instrument over the life of the instrument must be substantially based on the profit or loss, change in the recognised net assets or fair value of the recognised and unrecognised net assets of the entity over the life of the instrument. Profit or loss and the change in the recognised net assets shall be measured in accordance with relevant HKFRSs.

### Transactions entered into by an instrument holder other than as owner of the entity (paragraphs 16A and 16C)

AG14F The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder may also be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as equity under paragraph 16A or paragraph 16C.

AG14G An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.

AG14H Another example is a profit or loss sharing arrangement that allocates profit or loss to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 16A or paragraph 16C. However, profit or loss sharing arrangements that allocate profit or loss to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 16A or paragraph 16C.

AG14I The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument holder and the issuing entity.

### No other financial instrument or contract with total cash flows that substantially fixes or restricts the residual return to the instrument holder (paragraphs 16B and 16D)

AG14J A condition for classifying as equity a financial instrument that otherwise meets the criteria in paragraph 16A or paragraph 16C is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 16A or paragraph 16C from being classified as equity:

(a) instruments with total cash flows substantially based on specific assets of the entity.

(b) instruments with total cash flows based on a percentage of revenue.

© Copyright 

(c) contracts designed to reward individual employees for services rendered to the entity.

(d) contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided.

## Derivative financial instruments

AG15 Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.

AG16 Derivative financial instruments 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.

AG17 A put or call option to exchange financial assets or financial liabilities (i.e. financial instruments other than an entity's own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder's right to exchange the financial asset under potentially favourable conditions and the writer's obligation to exchange the financial asset under potentially unfavourable conditions are distinct from the underlying financial asset to be exchanged upon exercise of the option. The nature of the holder's right and of the writer's obligation are not affected by the likelihood that the option will be exercised.

[*] This is true of most, but not all derivatives, e.g. in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

AG18 Another example of a derivative financial instrument is a forward contract to be settled in six months' time in which one party (the purchaser) promises to deliver CU1,000,000 cash in exchange for CU1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver CU1,000,000 face amount of fixed rate government bonds in exchange for CU1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market price of the government bonds rises above CU1,000,000, the conditions will be favourable to the purchaser and unfavourable to the seller; if the market price falls below CU1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.

AG19 Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardised and traded on an exchange.

## Contracts to buy or sell non-financial items (paragraphs 8-10)

AG20 Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (e.g. an option, futures or forward contract on silver) are not financial instruments. Many commodity contracts are of this type. Some are standardised in form and traded on organised markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 8).

© Copyright

AG21 A contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit.

AG22 Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.

AG23 The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.

AG24 [Deleted]

# Presentation

## Liabilities and equity (paragraphs 15-27)

### No contractual obligation to deliver cash or another financial asset (paragraphs 17-20)

AG25 Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient profits or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.

© Copyright

AG26 When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

(a) a history of making distributions;

(b) an intention to make distributions in the future;

(c) a possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);

(d) the amount of the issuer's reserves;

(e) an issuer's expectation of a profit or loss for a period; or

(f) an ability or inability of the issuer to influence the amount of its profit or loss for the period.

**Settlement in the entity's own equity instruments (paragraphs 21-24)**

AG27 The following examples illustrate how to classify different types of contracts on an entity's own equity instruments:

(a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 22A). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from equity. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognises a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is an entity's obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.

(b) An entity's obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 16A and 16B or paragraphs 16C and 16D). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.

(c) A contract that will be settled in cash or another financial asset is a financial asset or financial liability even if the amount of cash or another financial asset that will be received or delivered is based on changes in the market price of the entity's own equity (except as stated in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is a net cash-settled share option.

(d) A contract that will be settled in a variable number of the entity's own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (e.g. a commodity price) is a financial asset or a financial liability. An example is a written option to buy gold that, if exercised, is settled net in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity's own share price rather than gold. Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.

**Contingent settlement provisions (paragraph 25)**

AG28 Paragraph 25 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.

**Treatment in Consolidated Financial Statements**

AG29 In consolidated financial statements, an entity presents non-controlling interests—i.e. the interests of other parties in the equity and income of its subsidiaries—in accordance with HKAS 1 and HKFRS 10. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the group and the holders of the instrument in determining whether the group as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a subsidiary in a group issues a financial instrument and a parent or other group entity agrees additional terms directly with the holders of the instrument (e.g. a guarantee), the group may not have discretion over distributions or redemption. Although the subsidiary may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the group and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the group as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.

AG29A Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument. This exception is not extended to the classification of non-controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 16A and 16B or paragraphs 16C and 16D in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the group.

© Copyright

## Compound financial instruments (paragraphs 28-32)

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. HKAS 39 deals with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain debt and equity features.

AG31 A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 28 requires the issuer of such a financial instrument to present the liability component and the equity component separately in the statement of financial position, as follows:

(a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

(b) The equity instrument is an embedded option to convert the liability into equity of the issuer. This option has value on initial recognition even when it is out of the money.

AG32 On conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

AG33 When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 28-32.

AG34 Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

(a) the amount of gain or loss relating to the liability component is recognised in profit or loss; and

(b) the amount of consideration relating to the equity component is recognised in equity.

AG35 An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favourable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognised as a loss in profit or loss.

## Treasury shares (paragraphs 33 and 34)

AG36 An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 33 requires an entity that reacquires its own equity instruments to deduct those equity instruments from equity. However, when an entity holds its own equity on behalf of others, e.g. a financial institution holding its own equity on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's statement of financial position.

## Interest, dividends, losses and gains (paragraphs 35-41)

AG37 The following example illustrates the application of paragraph 35 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognised in profit or loss and classified as interest expense. Any dividends paid relate to the equity component and, accordingly, are recognised as a distribution of profit or loss. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (e.g. commodity). However, if any unpaid dividends are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends are classified as interest expense.

## Offsetting a financial asset and a financial liability (paragraphs 42-50)

AG38 [Deleted] ~~To offset a financial asset and a financial liability, an entity must have a currently enforceable legal right to set off the recognised amounts. An entity may have a conditional right to set off recognised amounts, such as in a master netting agreement or in some forms of non-recourse debt, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Thus, such an arrangement does not meet the conditions for offset.~~

## Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

AG38A A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of business, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG38B To meet the criterion in paragraph 42(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

(a) must not be contingent on a future event; and

(b) must be legally enforceable in all of the following circumstances:

(i) the normal course of business;

(ii) the event of default; and

(iii) the event of insolvency or bankruptcy

of the entity and all of the counterparties.

AG38C The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of business. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG38D The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of business, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG38B(b)).

## Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' (paragraph 42(b))

AG38E To meet the criterion in paragraph 42(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG38F If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 42(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 42(b):

(a) financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;

(b) once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;

(c) there is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);

(d) assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);

(e) any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;

(f) settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and

(g) an intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

AG39 The Standard does not provide special treatment for so-called 'synthetic instruments', which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesises a fixed rate long-term debt. Each of the individual financial instruments that together constitute a 'synthetic instrument' represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a 'synthetic instrument' is an asset and another is a liability, they are not offset and presented in an entity's statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 42.

## Disclosure

### Financial assets and financial liabilities at fair value through profit or loss (paragraph 94(f))

AG40 [Deleted]

© Copyright 

HKAS 32 BC
Revised ~~May~~ November 2014

Effective for annual periods
beginning on or after 1 January 2005

*Basis for Conclusions on*
*Hong Kong Accounting Standard 32*

# Financial Instruments: Presentation

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

**AMENDMENTS TO THE APPLICATION GUIDANCE FOR OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES** **BC75**

**Background** **BC75**

**Requirements for offsetting financial assets and financial liabilities** **BC79**

Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' BC79

Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' BC94

**Offsetting collateral amounts** **BC102**

**Unit of account** **BC105**

**Cost-benefit considerations** **BC112**

**Transition and effective date** **BC117**

**DISSENTING OPINIONS**

highlight the need for a comprehensive reconsideration of the distinctions between liabilities and equity, which the Board is undertaking in its long-term project.

BC70 In the interim, the Board concluded that classifying as equity the instruments that have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D would improve the comparability of information provided to the users of financial statements. That is because financial instruments that are largely equivalent to ordinary shares would be consistently classified across different entity structures (eg some partnerships, limited life entities and co-operatives). The specified instruments differ from ordinary shares in one respect; that difference is the obligation to deliver cash (or another financial asset). However, the Board concluded that the other characteristics of the specified instruments are sufficiently similar to ordinary shares for the instruments to be classified as equity. Consequently, the Board concluded that the amendments will result in financial reporting that is more understandable and relevant to the users of financial statements.

BC71 Furthermore, in developing the amendments, the Board considered the costs to entities of obtaining information necessary to determine the required classification. The Board believes that the costs of obtaining any new information would be slight because all of the necessary information should be readily available.

BC72 The Board also acknowledged that one of the costs and risks of introducing exceptions to the definition of a financial liability is the structuring opportunities that may result. The Board concluded that financial structuring opportunities are minimised by the detailed criteria required for equity classification and the related disclosures.

BC73 Consequently, the Board believed that the benefits of the amendments outweigh the costs.

BC74 The Board took the view that, in most cases, entities should be able to apply the amendments retrospectively. The Board noted that IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides relief when it is impracticable to apply a change in accounting policy retrospectively as a result of a new requirement. Furthermore, the Board took the view that the costs outweighed the benefits of separating a compound financial instrument with an obligation to deliver a pro rata share of the net assets of the entity only on liquidation when the liability component is no longer outstanding on the date of initial application. Hence, there is no requirement on transition to separate such compound instruments.

## Amendments to the application guidance for offsetting financial assets and financial liabilities

### Background

BC75 Following requests from users of financial statements and recommendations from the Financial Stability Board, in June 2010 the IASB and the US national standard-setter, the Financial Accounting Standards Board (FASB), added a project to their respective agendas to improve, and potentially achieve convergence of, the requirements for offsetting financial assets and financial liabilities. The boards made this decision because the differences in their requirements for offsetting financial assets and financial liabilities cause significant differences between amounts presented in statements of financial position prepared in accordance with IFRSs and amounts presented in statements of financial position prepared in accordance with US GAAP. This is particularly so for entities that have large amounts of derivative activities.

BC76 Consequently, in January 2011 the Board published the exposure draft *Offsetting Financial Assets and Financial Liabilities*. The proposals in the exposure draft would have established a common approach with the FASB. The exposure draft also proposed disclosures about financial assets and financial liabilities that are subject to set-off rights and related arrangements (such as collateral agreements), and the effect of those rights and arrangements on an entity's financial position.

BC77 As a result of the feedback received on the exposure draft, the IASB and the FASB decided to maintain their current offsetting models. However, the boards noted that requiring common disclosures of gross and net information would be helpful for users of financial statements. Accordingly, the boards agreed on common disclosure requirements by amending and finalising the disclosures that were initially proposed in the exposure draft. The amendments *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) were issued in December 2011.

BC78 In addition, the IASB decided to add application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This included clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

## Requirements for offsetting financial assets and financial liabilities

### Criterion that an entity 'currently has a legally enforceable right to set off the recognised amounts' (paragraph 42(a))

BC79 To meet the criterion in paragraph 42(a) of IAS 32, an entity must currently have a legally enforceable right to set off the recognised amounts. However, IAS 32 did not previously provide guidance on what was meant by 'currently has a legally enforceable right to set off'. Feedback from the exposure draft revealed inconsistencies in the application of this criterion by IFRS preparers. Consequently, the Board decided to include application guidance in IAS 32 (paragraphs AG38A–AG38D) to clarify the meaning of this criterion.

BC80 The Board believes that the net amounts of financial assets and financial liabilities presented in the statement of financial position should represent an entity's exposure in the normal course of business and its exposure if one of the parties will not or cannot perform under the terms of the contract. The Board therefore clarified in paragraph AG38B that to meet the criterion in paragraph 42(a) of IAS 32 a right of set-off is required to be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the entity and all of the counterparties. The right must exist for all counterparties so that if an event occurs for one of the counterparties, including the entity, the other counterparty or parties will be able to enforce the right of set-off against the party that has defaulted or gone insolvent or bankrupt.

BC81 If a right of set-off cannot be enforced in the event of default and in the event of insolvency or bankruptcy, then offsetting would not reflect the economic substance of the entity's rights and obligations and would therefore not meet the objective of offsetting in paragraph 43 of IAS 32. The Board uses the term 'in the event of default and in the event of insolvency or bankruptcy' to describe scenarios where an entity will not or cannot perform under the contract.

BC82 The use of the word 'currently' in paragraph 42(a) of IAS 32 means that the right of set-off cannot be contingent on a future event. If a right of set-off were contingent or conditional on a future event an entity would not currently have a (legally enforceable) right of set-off. The right of set-off would not exist until the contingency occurred, if at all.

BC83 In addition, the Board believes that the passage of time or uncertainties in amounts to be paid do not preclude an entity from currently having a (legally enforceable) right of set-off. The fact that the payments subject to a right of set-off will only arise at a future date is not in itself a condition or a form of contingency that prevents offsetting in accordance with paragraph 42(a) of IAS 32.

BC84 However, if the right of set-off is not exercisable during a period when amounts are due and payable, then the entity does not meet the offsetting criterion as it has no right to set off those payments. Similarly, a right of set-off that could disappear or that would no longer be enforceable after a future event that could take place in the normal course of business or in the event of default, or in the event of insolvency or bankruptcy, such as a ratings downgrade, would not meet the currently (legally enforceable) criterion in paragraph 42(a) of IAS 32.

BC85 The application of the word 'currently' in paragraph 42(a) of IAS 32 was not a source of inconsistency in practice but rather a question that arose as a result of the wording in the exposure draft. Consequently, the Board decided that further application guidance was only required for the legal enforceability part of the criterion.

BC86 In developing the proposals in the exposure draft, the Board concluded that the net amount represents the entity's right or obligation if (a) the entity has the ability to insist on net settlement or to enforce net settlement in all situations (ie the exercise of that right is not contingent on a future event), (b) that ability is assured, and (c) the entity intends to receive or pay a single net amount, or to realise the asset and settle the liability simultaneously.

BC87 Some respondents were concerned that the terms 'in all situations' and 'the ability is assured' as referred to in paragraph BC86 create a higher hurdle than IAS 32 today. The Board however believes that the conclusions in the exposure draft are consistent with the offsetting criteria and principle in IAS 32, specifically paragraphs 42, 43, 46 and 47. In addition, the application guidance in paragraph AG38B of IAS 32 addresses respondents' concerns by clarifying the circumstances in which an entity should be able to net (ie what 'in all situations' means), and by requiring legal enforceability in such circumstances, a term commonly used in applying IAS 32 today.

### *Applicability to all counterparties*

BC88 The proposals in the exposure draft required that the right of set-off be legally enforceable in the event of default and in the event of insolvency or bankruptcy of 'one of the counterparties' (including the entity itself). There were differing views as to whether the requirement that the right of set-off must be enforceable in the event of the entity's default and/or insolvency or bankruptcy changed the criteria in IAS 32 today.

BC89 Some respondents disagreed that the right of set-off must be enforceable in the events of default and insolvency or bankruptcy of the entity. Although consideration is given to enforceability today to achieve offsetting in accordance with IAS 32, some have only focused on the effects of the insolvency or bankruptcy of the counterparty. These respondents questioned whether legal opinions as to enforceability in the event of their own insolvency or bankruptcy could be obtained and considered this to be a change in practice from IAS 32 that could increase costs and the burden for preparers. They also believed that such a requirement would be inconsistent with the going concern basis of preparation for financial statements.

BC90 Other respondents, however, agreed that, to represent the entity's net exposure at all times, the right of set-off must be enforceable in the insolvency or bankruptcy of all of the counterparties to the contract.

BC91 The Board believes that limiting the enforcement of the right of set-off to the event of default and the event of insolvency or bankruptcy of the counterparty (and not the entity itself) is not consistent with the principle and objective of offsetting in IAS 32.

BC92 If a right of set-off cannot also be enforced in the event of default and in the event of insolvency or bankruptcy of the entity, then offsetting would not reflect the economic substance of the entity's rights and obligations or the financial position of the entity (ie offsetting would not reflect an entity's expected future cash flows from settling two or more separate financial instruments in accordance with paragraph 43 of IAS 32) and would therefore not meet the objective of offsetting in IAS 32.

BC93 Consequently, the Board decided to clarify that, to meet the offsetting criterion in paragraph 42(a) of IAS 32, a right of set-off must be enforceable in the event of default and in the event of insolvency or bankruptcy of both the entity and its counterparties (paragraphs AG38A and AG38B of IAS 32).

## Criterion that an entity 'intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously' (paragraph 42(b))

BC94 In the exposure draft the boards noted that offsetting financial assets and financial liabilities is appropriate and reflects the financial position of an entity only if the entity has, in effect, a right to, or an obligation for, only the net amount (ie the entity has, in effect, a single net financial asset or net financial liability). The amount resulting from offsetting must also reflect the entity's expected future cash flows from settling two or more separate financial instruments. This is consistent with the principle in paragraph 43 of IAS 32.

BC95 When developing that principle the boards understood that entities may currently have a legally enforceable right and desire to settle net, but may not have the operational capabilities to effect net settlement. The gross positions would be settled at the same moment such that the outcome would not be distinguishable from net settlement. As a result the boards included simultaneous settlement as a practical exception to net settlement. Simultaneous settlement was intended to capture payments that are essentially equivalent to actual net settlement. The proposals in the exposure draft also defined simultaneous settlement as settlement 'at the same moment'.

BC96 Simultaneous settlement as 'at the same moment' is already a concept in paragraph 48 of IAS 32 that enables an entity to meet the criterion in paragraph 42(b) of IAS 32. However, feedback received during outreach indicated that there was diversity in practice related to the interpretation of 'simultaneous settlement' in IAS 32. Many preparers and accounting firms have interpreted paragraph 48 of IAS 32 to mean that settlement through a clearing house always meets the simultaneous settlement criterion even if not occurring at the same moment.

BC97 Respondents also noted that settlement of two positions by exchange of gross cash flows at exactly the same moment (simultaneously) rarely occurs in practice today. They argued that 'simultaneous' is not operational and ignores settlement systems that are established to achieve what is economically considered to be net exposure.

BC98 Some preparers also indicated that settlement through some gross settlement mechanisms, though not simultaneous, effectively results in the same exposure as in net settlement or settlement at the same moment and are currently considered to meet the requirements in IAS 32, without actually taking place 'at the same moment'. For particular settlement mechanisms, once the settlement process commences, the entity is not exposed to credit or liquidity risk over and above the net amount and therefore the process is equivalent to net settlement.

BC99 Paragraph 48 of IAS 32 states that simultaneous settlement results in 'no exposure to credit or liquidity risk'. In its redeliberations the Board considered gross settlement mechanisms with features that both (i) eliminate credit and liquidity risk; and (ii) process receivables and payables in a single settlement process. The Board agreed that gross settlement systems with such features are effectively equivalent to net settlement.

BC100 To clarify the application of the IAS 32 offsetting criteria and to reduce diversity in practice, the Board therefore clarified the principle behind net settlement and included an example of a gross settlement system with characteristics that would satisfy the IAS 32 criterion for net settlement in paragraph AG38F of IAS 32.

BC101 However, the Board decided not to refer specifically to clearing houses or central counterparties when describing systems that may be treated as equivalent to net settlement for the purposes of the set-off criterion. Systems that meet the principle in paragraph AG38F of IAS 32 may be referred to by different names in different jurisdictions. Referring to specific types of settlement systems may exclude other systems that are also considered equivalent to net settlement. In addition, the Board did not want to imply that settlement through specific systems would always meet the net settlement criterion. Entities must determine whether a system meets the principle in paragraph AG38F of IAS 32 by determining whether or not the system eliminates or results in insignificant credit and liquidity risk and processes receivables and payables in the same settlement process or cycle.

## Offsetting collateral amounts

BC102 The proposals in the exposure draft specifically prohibited offsetting assets pledged as collateral (or the right to reclaim the collateral pledged) or the obligation to return collateral sold with the associated financial assets and financial liabilities. A number of respondents disagreed with the proposed treatment of collateral and noted that the proposed prohibition was more restrictive than the offsetting criteria in paragraph 42 of IAS 32.

BC103 The offsetting criteria in IAS 32 do not give special consideration to items referred to as 'collateral'. The Board confirmed that a recognised financial instrument referred to as collateral should be set off against the related financial asset or financial liability in the statement of financial position if, and only if, it meets the offsetting criteria in paragraph 42 of IAS 32. The Board also noted that if an entity can be required to return or receive back collateral, the entity would not currently have a legally enforceable right of set-off in all of the following circumstances: in the normal course of business, the event of default and the event of insolvency or bankruptcy of one of the counterparties.

BC104 Because no particular practice concerns or inconsistencies were brought to the Board's attention related to the treatment of collateral in accordance with the offsetting criteria in IAS 32, and as the concerns that arose originated from the proposals in the exposure draft, the Board did not consider it necessary to add application guidance for the treatment of collateral.

## Unit of account

BC105 Neither IAS 32 nor the exposure draft specifies the unit of account to which the offsetting requirements should be applied. During the outreach performed on the exposure draft, it became apparent that there was diversity in practice regarding the unit of account that was used for offsetting in accordance with IAS 32.

BC106 Entities in some industries (for example, energy producers and traders) apply the offsetting criteria to identifiable cash flows. Other entities apply the offsetting criteria to entire financial assets and financial liabilities. For those entities (for example, financial institutions), applying the offsetting criteria to individual identifiable cash flows (portions of financial assets and financial liabilities) within contracts would be impractical and burdensome, even though requiring application of the offsetting criteria to entire financial instruments results in less offsetting in the statement of financial position.

BC107 The Board acknowledged that the focus of the offsetting model is the entity's net exposure and expected future cash flows from settling the related financial instruments.

BC108 The Board also noted that some of the entities for whom the offsetting requirements are most relevant are those that would have the most significant operational challenges with applying the model to individual cash flows (such as financial institutions with large derivative activities). This is important to consider because IAS 32 requires offsetting if the offsetting criteria are met.

BC109 On the other hand, if the application of the offsetting criteria to individual cash flows was prohibited, entities in some industries (for example, energy producers and traders) that apply the criteria in IAS 32 to individual cash flows of financial instruments, and achieve set-off on that basis today, would no longer be permitted to do so.

BC110 The Board considered clarifying the application guidance in IAS 32 to indicate that offsetting should apply to individual cash flows of financial instruments. However, if it made such clarification, the Board felt that it would be necessary to consider an exemption from this requirement on the basis of operational complexity. This would result in the offsetting requirements still being applied differently between entities.

BC111 Although different interpretations of the unit of account are applied today, the Board concluded that this does not result in inappropriate application of the offsetting criteria. The benefits of amending IAS 32 would not outweigh the costs for preparers and therefore the Board decided not to amend the application guidance to IAS 32 on this subject.

## Cost-benefit considerations

BC112 Before issuing an IFRS or an amendment to an IFRS, the Board seeks to ensure that it will meet a significant need and that the overall benefits of the resulting information will justify the costs of providing it. The Board issued *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) to eliminate inconsistencies in the application of the offsetting criteria in paragraph 42 of IAS 32 by clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

BC113 Some respondents were concerned that requiring a right of set-off to be enforceable in the event of default and in the event of insolvency or bankruptcy of the entity would increase the cost of applying the offsetting criteria in IAS 32, if, for example, they needed to obtain additional legal opinions on enforceability. However, the Board noted that without this clarification the offsetting criteria would continue to be applied inconsistently, and the resulting offsetting would be inconsistent with the offsetting objective in IAS 32. This would also reduce comparability for users of financial statements. Consequently, the Board concluded that the benefit of clarifying this criterion outweighed the cost to preparers of applying these amendments.

BC114 During redeliberations the Board also considered feedback received on the proposals in the exposure draft related to the treatment of collateral and unit of account. However, as described in greater detail in other sections of this Basis for Conclusions, the Board did not consider it necessary to add application guidance for the treatment of these items.

BC115 The amendments to the IAS 32 application guidance (paragraphs AG38A–AG38F of IAS 32) are intended to clarify the Board's objective for the offsetting criteria and therefore eliminate inconsistencies noted in applying paragraph 42 of IAS 32.

BC116 Based on the considerations described in the Basis for Conclusions of these amendments, and summarised in paragraphs BC112–BC115, the Board concluded that the benefits of *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) outweigh the costs to preparers of applying those amendments.

## Transition and effective date

BC117 During redeliberations, the Board originally decided to require retrospective application of the application guidance in paragraphs AG38A–AG38F of IAS 32 for annual periods beginning on or after 1 January 2013. The Board did not expect significant changes in practice as a result of the clarifications made to the application guidance and hence aligned the effective date and transition of these amendments with that of *Disclosures—Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7), issued in December 2011.

BC118 However, the Board received additional feedback from some preparers that the clarifications to the application guidance could change their practice. These preparers indicated that they needed more time to evaluate the effects of the amendments. They indicated that it would be difficult for them to make this assessment in time to allow application of the amendments to the application guidance for the first comparative reporting period.

BC119 Preparers therefore requested that the Board consider aligning the effective date of the amendments with the revised effective date of IFRS 9 *Financial Instruments* (1 January 2015), with earlier application allowed. This would give them sufficient time to determine if there would be any changes to their financial statements.

BC120 The Board believed that the amendments to the IAS 32 application guidance should be effective as soon as possible to ensure comparability of financial statements prepared in accordance with IFRSs. In addition, the Board did not consider that the effective date needed to be aligned with that of IFRS 9. However, the Board also understood the concerns of preparers. The Board therefore decided to require the amendments to the IAS 32 application guidance to be effective for periods beginning 1 January 2014 with earlier application permitted. This would provide a balance between the time needed to implement the amendments with the need for consistent application of the IAS 32 offsetting requirements.

HKAS 34
Revised ~~February~~ November 2014

Effective for annual periods
beginning on or after 1 January 2005

*Hong Kong Accounting Standard 34*

# Interim Financial Reporting

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

# CONTENTS


| | *from paragraph* |
|---|---|
| **INTRODUCTION** | **IN1** |
| **HONG KONG ACCOUNTING STANDARD 34** | |
| ***INTERIM FINANCIAL REPORTING*** | |
| **OBJECTIVE** | |
| **SCOPE** | **1** |
| **DEFINITIONS** | **4** |
| **CONTENT OF AN INTERIM FINANCIAL REPORT** | **5** |
| **Minimum components of an interim financial report** | **8** |
| **Form and content of interim financial statements** | **9** |
| **Significant events and transactions** | **15** |
| **Other disclosures** | **16A** |
| **Disclosure of compliance with HKFRSs** | **19** |
| **Periods for which interim financial statements are required to be presented** | **20** |
| **Materiality** | **23** |
| **DISCLOSURE IN ANNUAL FINANCIAL STATEMENTS** | **26** |
| **RECOGNITION AND MEASUREMENT** | **28** |
| **Same accounting policies as annual** | **28** |
| **Revenues received seasonally, cyclically, or occasionally** | **37** |
| **Costs incurred unevenly during the financial year** | **39** |
| **Applying the recognition and measurement principles** | **40** |
| **Use of estimates** | **41** |
| **RESTATEMENT OF PREVIOUSLY REPORTED INTERIM PERIODS** | **43** |
| **WITHDRAWAL OF SSAP 25** | **45A** |
| **EFFECTIVE DATE** | **46** |
| **BASIS FOR CONCLUSIONS** | |
| **ILLUSTRATIVE EXAMPLES** | |
| **A Illustration of periods required to be presented** | |
| **B Examples of applying the recognition and measurement principles** | |
| **C Examples of the use of estimates** | |
| **APPENDIX** | |
| **Comparison with International Accounting Standards** | |


Hong Kong Accounting Standard 34 *Interim Financial Reporting* (HKAS 34) is set out in paragraphs 1-~~53~~54. All the paragraphs have equal authority. HKAS 34 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting* . HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

**(iii) a measure of segment profit or loss.**

**(iv) a measure of total assets and liabilities for a particular reportable segment if such amounts are regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.**

**(v) a description of differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.**

**(vi) a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to profit or loss after those items. Material reconciling items shall be separately identified and described in that reconciliation.**

**(h) events after the interim period that have not been reflected in the financial statements for the interim period.**

**(i) the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose the information required by HKFRS 3 *Business Combinations*.**

**(j) for financial instruments, the disclosures about fair value required by paragraphs 91-93(h), 94-96, 98 and 99 of HKFRS 13 *Fair Value Measurement* and paragraphs 25, 26 and 28-30 of HKFRS 7 *Financial Instruments: Disclosures*.**

**(k) for entities becoming, or ceasing to be, investment entities, as defined in HKFRS 10 *Consolidated Financial Statements*, the disclosures in HKFRS 12 *Disclosure of Interests in Other Entities* paragraph 9B.**

## Disclosure of compliance with HKFRSs

**19 If an entity's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report shall not be described as complying with HKFRSs unless it complies with all the requirements of HKFRSs.**

## Periods for which interim financial statements are required to be presented

**20 Interim reports shall include interim financial statements (condensed or complete) for periods as follows:**

**(a) statement of financial position as of the end of the current interim period and a comparative statement of financial position as of the end of the immediately preceding financial year.**

**(b) statements of profit or loss and other comprehensive income for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit or loss and other comprehensive income for the comparable interim periods (current and year-to-date) of the immediately preceding financial year. As permitted by HKAS 1 (as amended in 2011), an interim report may present for each period a statement or statements of profit or loss and other comprehensive income.**

**(c) statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.**

45 To allow accounting changes to be reflected as of an interim date within the financial year would allow two differing accounting policies to be applied to a particular class of transactions within a single financial year. The result would be interim allocation difficulties, obscured operating results, and complicated analysis and understandability of interim period information.

## Withdrawal of SSAP 25

45A This Standard supersedes SSAP 25 *Interim Financial Reporting* (revised in 2001).

## Effective date

**46 This Standard becomes operative for financial statements covering periods beginning on or after 1 January 2005. Earlier application is encouraged.**

**47 HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 4, 5, 8, 11, 12 and 20, deleted paragraph 13 and added paragraphs 8A and 11A. 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.**

**48 HKFRS 3 (as revised in 2008) amended paragraph 16(i). An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.**

**49 Paragraphs 15, 27, 35 and 36 were amended, paragraphs 15A–15C and 16A were added and paragraphs 16–18 were deleted by *Improvements to HKFRSs* issued in May 2010. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.**

50 HKFRS 13, issued in June 2011, added paragraph 16A(j). An entity shall apply that amendment when it applies HKFRS 13.

51 *Presentation of Items of Other Comprehensive Income* (Amendments to HKAS 1), issued in July 2011, amended paragraph 8, 8A, 11A and 20. An entity shall apply those amendments when it applies HKAS 1 as amended in July 2011.

52 *Annual Improvements 2009-2011 Cycle*, Issued in June 2012, amended paragraph 5 as a consequential amendment derived from the amendment to HKAS 1 *Presentation of Financial Statements*. An entity shall apply that amendment retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

53 *Annual Improvements 2009-2011 Cycle*, issued in June 2012, amended paragraph 16A. An entity shall apply that amendment retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

54 *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 16A. An entity shall apply that amendment for annual periods beginning 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

HKAS 36
Revised ~~June~~ November 2014

*Hong Kong Accounting Standard 36*

# Impairment of Assets

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

| | |
|---|---|
| **Reversing an impairment loss for goodwill** | **124** |
| **DISCLOSURE** | **126** |
| **Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives** | **134** |
| **TRANSITION~~AL~~ PROVISIONS AND EFFECTIVE DATE** | **139** |
| **WITHDRAWAL OF SSAP 31** | **141** |

**APPENDICES**

**A** **Using present value techniques to measure value in use**

**B** **Amendment to HKAS 16**

**C** **Impairment testing cash-generating units with goodwill and non-controlling interests**

**D** **Comparison with International Accounting Standards**

**BASIS FOR CONCLUSIONS**

**DISSENTING OPINIONS**

**ILLUSTRATIVE EXAMPLES**

**TABLE OF CONCORDANCE**

Hong Kong Accounting Standard 36 *Impairment of Assets* (HKAS 36) is set out in paragraphs 1-141 and Appendices A - ~~D~~C. All the paragraphs have equal authority. HKAS 36 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Disclosure

**126 An entity shall disclose the following for each class of assets:**

**(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are included.**

**(b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are reversed.**

**(c) the amount of impairment losses on revalued assets recognised in other comprehensive income during the period.**

**(d) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.**

127 A class of assets is a grouping of assets of similar nature and use in an entity's operations.

128 The information required in paragraph 126 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required by HKAS 16.

**129 An entity that reports segment information in accordance with HKFRS 8 shall disclose the following for each reportable segment:**

**(a) the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period.**

**(b) the amount of reversals of impairment losses recognised in profit or loss and in other comprehensive income during the period.**

**130 An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an ~~each material~~ impairment loss has been recognised or reversed during the period ~~for an individual asset, including goodwill, or a cash-generating unit~~:**

**(a) the events and circumstances that led to the recognition or reversal of the impairment loss.**

**(b) the amount of the impairment loss recognised or reversed.**

**(c) for an individual asset:**

**(i) the nature of the asset; and**

**(ii) if the entity reports segment information in accordance with HKFRS 8, the reportable segment to which the asset belongs.**

**(d) for a cash-generating unit:**

**(i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in HKFRS 8);**

**(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with HKFRS 8, by reportable segment; and**

**(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.**

**(e) the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.**

**(f) if the recoverable amount is fair value less costs of disposal, ~~the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset). An entity is not required to provide the disclosures required by HKFRS 13.~~ the entity shall disclose the following information:**

**(i) the level of the fair value hierarchy (see HKFRS 13) within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable);**

**(ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; and**

**(iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.**

**(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.**

**131 An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:**

**(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.**

**(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**

132 An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period. However, paragraph 134 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

**133 If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

## Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

**134 An entity shall disclose the information required by (a)-(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

**(a) the carrying amount of goodwill allocated to the unit (group of units).**

**(b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).**

**(c) ~~the recoverable amount of the unit (or group of units) and~~ the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).**

**(d) if the unit's (group of units') recoverable amount is based on value in use:**

**(i) each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.**

**(ii) a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

**(iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.**

**(iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.**

**(v) the discount rate(s) applied to the cash flow projections.**

**(e) if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation techniques used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by HKFRS 13. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information :**

**entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:**

**(a) the aggregate carrying amount of goodwill allocated to those units (groups of units).**

**(b) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).**

**(c) a description of the key assumption(s).**

**(d) a description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

**(e) if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

**(i) the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.**

**(ii) the value(s) assigned to the key assumption(s).**

**(iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

136 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 24 or 99, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.

137 Illustrative Example 9 illustrates the disclosures required by paragraphs 134 and 135.

# Transition~~al~~ provisions and effective date

**138 [Deleted]**

**139 An entity shall apply this Standard:**

**(a) to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 1 January 2005; and**

**(b) to all other assets prospectively from the beginning of the first annual period beginning on or after 1 January 2005.**

**140 Entities to which paragraph 139 applies are encouraged to apply the requirements of this Standard before the effective dates specified in paragraph 139. However, if an entity applies this Standard before those effective dates, it also shall apply HKFRS 3 and HKAS 38 at the same time.**

140A HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 61, 120, 126 and 129. 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.

140B HKFRS 3 (as revised in 2008) amended paragraphs 65, 81, 85 and 139, deleted paragraphs 91-95 and 138 and added Appendix C. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period.

140C Paragraph 134(e) was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

140D *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and HKAS 27), issued in October 2008, added paragraph 12(h). An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the related amendments in paragraphs 4 and 38A of HKAS 27 for an earlier period, it shall apply the amendment in paragraph 12(h) at the same time.

140E *Improvements to HKFRSs* issued in May 2009 amended paragraph 80(b). An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

140F *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

140G *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

140H HKFRS 10 and HKFRS 11, issued in June 2011, amended paragraph 4, the heading above paragraph 12(h) and paragraph 12(h). An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

140I HKFRS 13, issued in June 2011, amended paragraphs 5, 6, 12, 20, 22, 28, 78, 105, 111, 130 and 134, deleted paragraphs 25-27 and added paragraph 53A. An entity shall apply those amendments when it applies HKFRS 13.

140J In June 2013 paragraphs 130 and 134 and the heading above paragraph 138 were amended. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

## Withdrawal of SSAP 31

141 This Standard supersedes SSAP 31 *Impairment of Assets* (issued in 2001).

# Appendix ~~E~~D

## Comparison with International Accounting Standards

This comparison appendix, which was prepared as at August 2004 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 36.

The International Accounting Standard comparable with HKAS 36 is IAS 36 *Impairment of Assets.*

There are no major textual differences between HKAS 36 and IAS 36.

HKAS 36 BC
Revised ~~June~~ November 2014

*Basis for Conclusions on*
*Hong Kong Accounting Standard 36*

# Impairment of Assets

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

| | |
|---|---|
| **DISCLOSURES FOR CASH-GENERATING UNITS CONTAINING GOODWILL OR INDEFINITE-LIVED INTANGIBLES** | **BC192** |
| **Background to the proposals in the Exposure Draft** | **BC192** |
| Subsequent cash flow test | BC195 |
| Including disclosure requirements in the revised Standard | BC199 |
| **The Board's redeliberations** | **BC205** |
| **Changes as a result of *Improvements to IFRSs* (2008)** | **BC209A** |
| **CHANGES AS A RESULT OF IFRS 13 *FAIR VALUE MEASUREMENT*** | **BC209B** |
| **Recoverable Amount Disclosures for Non-Financial Assets** | **BC209E** |
| **TRANSITIONAL PROVISIONS** | **BC210** |
| **Transitional impairment test for goodwill** | **BC216** |
| **Transitional impairment test for indefinite-lived intangibles** | **BC223** |
| **Early application** | **BC227** |
| **Transitional provision for *Improvements to IFRSs* (2009)** | **BC228A** |
| **Transition provisions for *Recoverable Amount Disclosures for Non-Financial Assets*** | **BC228B** |
| **SUMMARY OF MAIN CHANGES FROM THE EXPOSURE DRAFT** | **BC229** |
| **HISTORY OF THE DEVELOPMENT OF A STANDARD ON IMPAIRMENT OF ASSETS** | **BCZ230** |
| **DISSENTING OPINIONS** | |

## Recoverable Amount Disclosures for Non-Financial Assets

BC209E As a consequence of issuing IFRS 13, the IASB amended some of the disclosure requirements in IAS 36 for the recoverable amount of impaired assets. As described in paragraphs BC209B–BC209D, those amendments resulted from the IASB's decision to require the disclosure of the recoverable amount of impaired assets and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. The IASB also intended to retain a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use.

BC209F After issuing IFRS 13, the IASB was made aware that one of the amendments that that Standard had made to IAS 36 resulted in the disclosure requirements being more broadly applicable than the IASB had intended. Instead of requiring the disclosure of the recoverable amount for impaired assets, that amendment required the disclosure of the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant when compared to an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

BC209G Consequently, the IASB decided to publish, in January 2013, the Exposure Draft ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* ('Exposure Draft ED/2013/1'), which proposed to amend paragraphs 130 and 134 of IAS 36 to make clear its intention about the scope of the disclosure requirements. For the same reason, the IASB also proposed to amend paragraph 130(f) to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal, consistently with the disclosure requirements for impaired assets in US GAAP. As mentioned in paragraph BC209C, although IFRS and US GAAP have different impairment models, the IASB had concluded that requiring that additional information about impaired assets measured at fair value less costs of disposal would improve comparability between the disclosures presented in the financial statements of entities applying IFRS and the disclosures presented in the financial statements of those applying US GAAP.

BC209H One of the consequential amendments made by IFRS 13 amended paragraph 134(e) of IAS 36 that relates to fair value less costs of disposal for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives. That amendment required the disclosure of the level of the fair value hierarchy in which the measurement is categorised, and whether (and if so why) there has been a change in the valuation technique used to measure fair value less costs of disposal for such cash-generating units. In developing Exposure Draft ED/2013/1, the IASB did not consider it necessary to amend those disclosure requirements because they were consistent with its intention of aligning the disclosures about fair value less costs of disposal in IAS 36 with the fair value disclosures in IFRS 13. Consequently, the IASB decided to retain the disclosure requirements in paragraph 134(e) and to add, as mentioned in paragraph BC209G, requirements for similar disclosures in paragraph 130(f).

BC209I When developing Exposure Draft ED/2013/1, the IASB considered whether there should be consistency between the wording of the disclosure requirements in IAS 36 (which uses the term 'assumptions') with the wording of the measurement requirements in IFRS 13 (which uses the term 'inputs'). The IASB concluded that it was unlikely that those terms could have different meanings because IFRS 13 defines 'inputs' as "the assumptions that market participants would use when pricing the asset or liability…". In addition, the IASB wanted to make clear that the proposed amendments did not change the meaning of the information that is required to be disclosed in accordance with IAS 36. On the basis of that analysis and given that the use of the term 'assumptions' was not questioned by the respondents to Exposure Draft ED/2013/1, the IASB decided to retain that term in the final amendments.

BC209J When developing Exposure Draft ED/2013/1, the IASB also noted that its proposed amendments overlapped with an amendment to paragraph 130(f) of IAS 36 that had been proposed in the Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010–2012 Cycle* ('Exposure Draft ED/2012/1') published in May 2012. The intention behind the proposal in Exposure Draft ED/2012/1 was to harmonise the disclosure requirements for fair value less costs of disposal and value in use by adding to paragraph 130(f) the requirement to disclose the discount rates that were used in the current and previous measurements if the recoverable amount of impaired assets, determined on the basis of fair value less costs of disposal, was measured using a present value technique. A total of 64 respondents commented on that proposal, with nearly all of those respondents supporting it. Consequently, the IASB decided to incorporate that proposal into Exposure Draft ED/2013/1, but did not request comments in response to this topic.

BC209K A total of 74 respondents commented on Exposure Draft ED/2013/1. Even though the vast majority of the respondents supported the proposed amendments, a few respondents believed that, when impairment losses were calculated by reference to the recoverable amount determined on the basis of fair value less costs of disposal, the amendments would result in the disclosure requirements being broader than the disclosures that would be required if the same impairment losses were calculated by reference to the recoverable amount determined on the basis of value in use. The IASB noted that it had already taken the decision to require this incremental disclosure when it first amended IAS 36 as a result of issuing IFRS 13. As mentioned in paragraph BC209G, that decision had been taken on the grounds that those amendments would improve comparability between the disclosures presented in the financial statements of entities applying IFRS and the disclosures presented in the financial statements of those applying US GAAP.

BC209L During the development of IFRS 13, the IASB also noted that not all of the additional disclosure requirements for the recoverable amount determined on the basis of fair value less costs of disposal would be applicable for the recoverable amount determined on the basis of value in use. The requirement of disclosing the level of the fair value hierarchy within which the fair value measurement of the impaired asset is categorised would, for example, not be applicable to a measurement based on value in use. In addition, the IASB noted that the amendments to paragraph 130(f) would help to align the disclosure requirements for fair value less costs of disposal for impaired assets with the disclosure requirements in paragraph 134(e) for fair value less costs of disposal for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

BC209M Exposure Draft ED/2013/1 also proposed to remove the term 'material' from paragraph 130. When developing these proposals, the IASB concluded that it was unnecessary to state explicitly that the disclosure requirements in paragraph 130 relate to assets (including goodwill) or cash-generating units, for which a material impairment loss has been recognised or reversed during the period, because all IFRSs are governed by the concept of materiality as described in IAS 1 *Presentation of Financial Statements* (see paragraph 31 of IAS 1) and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Some respondents to Exposure Draft ED/2013/1 were opposed to removing this term because they thought that, by removing it, it would become unclear whether the disclosure requirements in paragraph 130 apply only when a material impairment loss has been recognised or reversed during the period. They were also concerned that the elimination of the term 'material' in paragraph 130 could impact the understanding of the requirements in paragraph 131 that deal with the disclosure of immaterial items on an aggregate basis.

BC209N The IASB had not intended to change the scope of the disclosure requirements in paragraph 130. In addition, the IASB concluded that the removal of the term 'material' in paragraph 130 should not impact the disclosure requirements in paragraph 131. Consequently, the IASB concluded that the rationale for removing the term 'material', as presented in Exposure Draft ED/2013/1, was still valid and, as a result, the IASB confirmed the removal of that term in the final amendments.

BC209O The IASB decided not to retain in the final amendments the last sentence of paragraph 130(f), as proposed in Exposure Draft ED/2013/1. That sentence stated that an "… entity is not required to provide the disclosures required by IFRS 13". The IASB noted that IFRS 13 already excludes from the scope of its disclosure requirements assets for which the recoverable amount is fair value less costs of disposal in accordance with IAS 36. As a result, the IASB concluded that that sentence in paragraph 130(f) was redundant and could cause confusion and therefore decided to remove it from the final amendments.

BC209P Exposure Draft ED/2013/1 proposed to include an illustrative example of the requirements in paragraph 130(b) and the proposed requirements in paragraph 130(f)(ii). Some respondents questioned the usefulness of that illustrative example, which did not illustrate all of the disclosures that are required for the recoverable amount of impaired assets based on fair value less costs of disposal. In their view, such an illustrative example could be misleading rather than helpful, because it might suggest that no other disclosures are required. On the basis of these comments, and because the IASB noted that Illustrative Example 15 to IFRS 13 includes similar disclosures to the ones included in the proposed illustrative example, it decided not to incorporate the proposed example in the final amendments.

BC209Q On the basis of the respondents' comments, the IASB decided to proceed with the final amendments subject to only minor drafting modifications.

### Transitional provision for *Improvements to IFRSs* (2009)

BC228A The Board considered the transition provisions and effective date of the amendment to paragraph 80(b). The Board noted that the assessment of goodwill impairment might involve the use of hindsight in determining the fair values of the cash-generating units at the end of a past reporting period. Considering practicability, the Board decided that the effective date should be for annual periods beginning on or after 1 January 2010 although the Board noted that the effective date of IFRS 8 is 1 January 2009. Therefore, the Board decided that an entity should apply the amendment to paragraph 80(b) made by *Improvements to IFRSs* issued in April 2009 prospectively for annual periods beginning on or after 1 January 2010.

### Transition provisions for *Recoverable Amount Disclosures for Non-Financial Assets*

BC228B In Exposure Draft ED/2013/1, the IASB proposed retrospective application and to permit earlier application of the amendments. The vast majority of the respondents supported those proposals.

BC228C The IASB decided to retain in the final amendments the transition requirements proposed in Exposure Draft ED/2013/1 that meant that entities should not provide comparative information for the prior period if they are not also applying IFRS 13 in that period. The objective of such transition requirements is to make these amendments have the same effect as if they had been issued when the IASB issued IFRS 13.

## Summary of main changes from the Exposure Draft

BC229 The following are the main changes from the Exposure Draft:

(a) the Exposure Draft proposed that an intangible asset with an indefinite useful life should be tested for impairment at the end of each annual period by comparing its carrying amount with its recoverable amount. The Standard requires such an intangible asset to be tested for impairment annually by comparing its carrying amount with its recoverable amount. The impairment test may be performed at any time during an annual period, provided it is performed at the same time every year, and different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current annual period, the Standard requires that intangible asset to be tested for impairment before the end of the current annual period.

(b) the Exposure Draft proposed that the cash flow projections used to measure value in use should be based on reasonable and supportable assumptions that take into account both past actual cash flows and management's past ability to forecast cash flows accurately. This proposal has not been included in the Standard. Instead, the Standard includes guidance clarifying that management:

(i) should assess the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows; and

(ii) should ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

(c) the Exposure Draft proposed that if an active market exists for the output produced by an asset or a group of assets, that asset or group of assets should be identified as a cash-generating unit, even if some or all of the output is used internally. In such circumstances, management's best estimate of future market prices for the output should be used in estimating the future cash flows used to determine the unit's value in use. The Exposure Draft also proposed that when estimating future cash flows to determine the value in use of cash-generating units using the output, management's best estimate of future market prices for the output should be used. The Standard similarly requires that if an active

*Hong Kong Accounting Standard 39*

# Financial Instruments:

# Recognition and Measurement

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

| | |
|---|---|
| *No active market: equity instruments* | AG80 |
| Gains and losses | AG83 |
| Impairment and uncollectibility of financial assets | AG84 |
| *Financial assets carried at amortised cost* | AG84 |
| *Interest income after impairment recognition* | AG93 |
| **Hedging** | **AG94** |
| Hedging instruments | AG94 |
| *Qualifying instruments* | AG94 |
| Hedged items | AG98 |
| *Qualifying items* | AG98 |
| *Designation of financial items as hedged items* | AG99C |
| *Designation of non-financial items as hedged items* | AG100 |
| *Designation of groups of items as hedged items* | AG101 |
| Hedge accounting | AG102 |
| *Assessing hedge effectiveness* | AG105 |
| *Fair value hedge accounting for a portfolio hedge of interest rate risk* | AG114 |
| **Transition** | **AG133** |

**Appendix B: Amendments to other pronouncements**

~~**Appendix C: Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting**~~

**BASIS FOR CONCLUSIONS**

**DISSENTING OPINIONS**

**ILLUSTRATIVE EXAMPLE**

**IMPLEMENTATION GUIDANCE**

Hong Kong Accounting Standard 39 *Financial Instruments: Recognition and Measurement* (HKAS 39) is set out in paragraphs 1-109 and Appendices A-~~C~~B. All the paragraphs have equal authority. HKAS 39 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

76 A single hedging instrument may be designated as a hedge of more than one type of risk provided that (a) the risks hedged can be identified clearly; (b) the effectiveness of the hedge can be demonstrated; and (c) it is possible to ensure that there is specific designation of the hedging instrument and different risk positions.

77 Two or more derivatives, or proportions of them, (or, in the case of a hedge of currency risk, two or more non-derivatives or proportions of them, or a combination of derivatives and non-derivatives or proportions of them), may be viewed in combination and jointly designated as the hedging instrument, including when the risk(s) arising from some derivatives offset(s) those arising from others. However, an interest rate collar or other derivative instrument that combines a written option and a purchased option does not qualify as a hedging instrument if it is, in effect, a net written option ( for which a net premium is received). Similarly, two or more instruments (or proportions of them) may be designated as the hedging instrument only if none of them is a written option or a net written option.

## Hedged items

### Qualifying items

78 A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a highly probable forecast transaction or a net investment in a foreign operation. The hedged item can be (a) a single asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation, (b) a group of assets, liabilities, firm commitments, highly probable forecast transactions or net investments in foreign operations with similar risk characteristics or (c) in a portfolio hedge of interest rate risk only, a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged.

79 Unlike loans and receivables, a held-to-maturity investment cannot be a hedged item with respect to interest-rate risk or prepayment risk because designation of an investment as held to maturity requires an intention to hold the investment until maturity without regard to changes in the fair value or cash flows of such an investment attributable to changes in interest rates. However, a held-to-maturity investment can be a hedged item with respect to risks from changes in foreign currency exchange rates and credit risk.

80 For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in HKFRS 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements. As an exception, the foreign currency risk of an intragroup monetary item (eg a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*. In accordance with HKAS 21, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

© Copyright 

### Fair value hedges

**89 If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:**

**(a) the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with HKAS 21 (for a non-derivative hedging instrument) shall be recognised in profit or loss; and**

**(b) the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.**

89A For a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities (and only in such a hedge), the requirement in paragraph 89(b) may be met by presenting the gain or loss attributable to the hedged item either:

(a) in a single separate line item within assets, for those repricing time periods for which the hedged item is an asset; or

(b) in a single separate line item within liabilities, for those repricing time periods for which the hedged item is a liability.

The separate line items referred to in (a) and (b) above shall be presented next to financial assets or financial liabilities. Amounts included in these line items shall be removed from the statement of financial position when the assets or liabilities to which they relate are derecognised.

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 55.

**91 An entity shall discontinue prospectively the hedge accounting specified in paragraph 89 if:**

**(a) the hedging instrument expires or is sold, terminated or exercised (~~f~~For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy)~~;~~. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:**

**(i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

**(ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

**(b) the hedge no longer meets the criteria for hedge accounting in paragraph 88; or**

**(c) the entity revokes the designation.**

**92 Any adjustment arising from paragraph 89(b) to the carrying amount of a hedged financial instrument for which the effective interest method is used (or, in the case of a portfolio hedge of interest rate risk, to the separate line item in the statement of financial position described in paragraph 89A) shall be amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The**

97 **If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income in accordance with paragraph 95 shall be reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (as revised in 2007)) in the same period or periods during which the hedged forecast cash flows affect profit or loss (such as in the periods that interest income or interest expense is recognised). However, if an entity expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into profit or loss as a reclassification adjustment the amount that is not expected to be recovered.**

98 **If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the entity shall adopt (a) or (b) below:**

(a) **It reclassifies the associated gains and losses that were recognised in other comprehensive income in accordance with paragraph 95 to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognised). However, if an entity expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.**

(b) **It removes the associated gains and losses that were recognised in other comprehensive income in accordance with paragraph 95, and includes them in the initial cost or other carrying amount of the asset or liability.**

99 **An entity shall adopt either (a) or (b) in paragraph 98 as its accounting policy and shall apply it consistently to all hedges to which paragraph 98 relates.**

100 **For cash flow hedges other than those covered by paragraphs 97 and 98, amounts that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) in the same period or periods during which the hedged forecast cash flows affect profit or loss (for example, when a forecast sale occurs).**

101 **In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 95-100:**

(a) **The hedging instrument expires or is sold, terminated or exercised~~ (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy)~~. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in equity until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies. For the purpose of this subparagraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity 's documented hedging strategy. Additionally, for the purpose of this subparagraph there is not an expiration or termination of the hedging instrument if:**

**(i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.**

**(ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.**

**(b) The hedge no longer meets the criteria for hedge accounting in paragraph 88. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in equity until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies.**

**(c) The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall be reclassified from equity to profit or loss as a reclassification adjustment. A forecast transaction that is no longer highly probable (see paragraph 88(c)) may still be expected to occur.**

**(d) The entity revokes the designation. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. When the transaction occurs, paragraph 97, 98 or 100 applies. If the transaction is no longer expected to occur, the cumulative gain or loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment.**

© Copyright

### Hedges of a net investment

**102 Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see HKAS 21), shall be accounted for similarly to cash flow hedges:**

**(a) the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 88) shall be recognised in other comprehensive income; and**

**(b) the ineffective portion shall be recognised in profit or loss.**

**The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment (see HKAS 1 (revised 2007)) in accordance with paragraphs 48-49 of HKAS 21 on the disposal or partial disposal of the foreign operation.**

© Copyright

103H *Reclassification of Financial Assets* (Amendments to HKAS 39 and HKFRS 7), issued in October 2008, amended paragraphs 50 and AG8, and added paragraphs 50B–50F. An entity shall apply those amendments on or after 1 July 2008. An entity shall not reclassify a financial asset in accordance with paragraph 50B, 50D or 50E before 1 July 2008. Any reclassification of a financial asset made on or after 1 November 2008 shall take effect only from the date when the reclassification is made. Any reclassification of a financial asset in accordance with paragraph 50B, 50D or 50E shall not be applied retrospectively before 1 July 2008.

103I *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to HKAS 39 and HKFRS 7), issued in December 2008, amended paragraph 103H. An entity shall apply that amendment on or after 1 July 2008.

103J An entity shall apply paragraph 12, as amended by *Embedded Derivatives* (Amendments to HK(IFRIC)-Int 9 and HKAS 39), issued in March 2009, for annual periods ending on or after 30 June 2009.

103K *Improvements to HKFRSs* issued in May 2009 amended paragraphs 2(g), 97, 100 and AG30(g). An entity shall apply the amendments to paragraphs 2(g), 97 and 100 prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. An entity shall apply the amendment to paragraph AG30(g) for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

103L-103M *[These paragraphs refer to amendments that are not yet effective, and are therefore not included in this edition.]*

103N Paragraph 103D was amended by *Improvements to HKFRSs* issued in May 2010. An entity shall apply that amendment for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

103O *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

103P HKFRS 10 and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 2(a), 15, AG3, AG36-AG38 and AG4I(a). An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

103Q HKFRS 13, issued in June 2011, amended paragraphs 9, 13, 28, 47, 88, AG46, AG52, AG64, AG76, AG76A, AG80, AG81 and AG96, added paragraph 43A and deleted paragraphs 48-49, AG69-AG75, AG77-AG79 and AG82. An entity shall apply those amendments when it applies HKFRS 13.

103R *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in December 2012, amended paragraphs 2 and 80. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

108C Paragraphs 9, 73 and AG8 were amended and paragraph 50A added by *Improvements to HKFRSs* issued in October 2008. Paragraph 80 was amended by *Improvements to HKFRSs* issued in May 2009. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. An entity shall apply the amendments in paragraphs 9 and 50A as of the date and in the manner it applied the 2005 amendments described in paragraph 105A. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

108D *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to HKAS 39), issued in July 2013, amended paragraphs 91 and 101 and added paragraph AG113A. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

## Withdrawal of other pronouncements

109 This Standard supersedes SSAP 24 *Accounting for Investments in Securities*.

AG113 If an entity does not meet hedge effectiveness criteria, the entity discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. However, if the entity identifies the event or change in circumstances that caused the hedging relationship to fail the effectiveness criteria, and demonstrates that the hedge was effective before the event or change in circumstances occurred, the entity discontinues hedge accounting from the date of the event or change in circumstances.

AG113A For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraphs 91(a)(ii) and 101(a)(ii) shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

### Fair value hedge accounting for a portfolio hedge of interest rate risk

AG114 For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)-(i) and paragraphs AG115-AG132 below.

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios (eg the entity may group its available-for-sale assets into a separate portfolio), in which case it applies the guidance below to each portfolio separately.

(b) The entity analyses the portfolio into repricing time periods based on expected, rather than contractual, repricing dates. The analysis into repricing time periods may be performed in various ways including scheduling cash flows into the periods in which they are expected to occur, or scheduling notional principal amounts into all periods until repricing is expected to occur.

(c) On the basis of this analysis, the entity decides the amount it wishes to hedge. The entity designates as the hedged item an amount of assets or liabilities (but not a net amount) from the identified portfolio equal to the amount it wishes to designate as being hedged. This amount also determines the percentage measure that is used for testing effectiveness in accordance with paragraph AG126(b).

(d) The entity designates the interest rate risk it is hedging. This risk could be a portion of the interest rate risk in each of the items in the hedged position, such as a benchmark interest rate (eg LIBOR).

(e) The entity designates one or more hedging instruments for each repricing time period.

(f) Using the designations made in (c)-(e) above, the entity assesses at inception and in subsequent periods, whether the hedge is expected to be highly effective during the period for which the hedge is designated.

(g) Periodically, the entity measures the change in the fair value of the hedged item (as designated in (c)) that is attributable to the hedged risk (as designated in (d)), on the basis of the expected repricing dates determined in (b). Provided that the hedge is determined actually to have been highly effective when assessed using the entity's documented method of assessing effectiveness, the entity recognises the change in fair value of the hedged item as a gain or loss in profit or loss and in one of two line items in the statement of financial position as described in paragraph 89A. The change in fair value need not be allocated to individual assets or liabilities.

HKAS 39 BC
Revised ~~July~~ November 2014

*Basis for Conclusions*
*Hong Kong Accounting Standard 39*

# Financial Instruments: Recognition and Measurement

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

| | |
|---|---|
| Prepayment risk | BC178 |
| Designation of the hedged item and liabilities with a demand feature | BC182 |
| What portion of assets should be designated and the impact on ineffectiveness | BC193 |
| The carrying amount of the hedged item | BC207 |
| Derecognition of amounts included in the separate line items | BC210 |
| The hedging instrument | BC213 |
| Hedge effectiveness for a portfolio hedge of interest rate risk | BC216 |
| Transition to fair value hedge accounting for portfolios of interest rate risk | BC219 |
| **Novation of derivatives and continuation of hedge accounting** | **BC220A** |
| **ELIMINATION OF SELECTED DIFFERENCES FROM US GAAP** | **BC221** |
| **SUMMARY OF CHANGES FROM THE EXPOSURE DRAFT** | **BC222** |
| **DISSENTING OPINIONS** | |

© Copyright

BC23E Some respondents to the Exposure Draft of July 2004 asked for guidance on the treatment of financial guarantee contracts by the holder. However, this was beyond the limited scope of the project.

## Contracts to buy or sell a non-financial item (paragraphs 5-7 and AG10)

BC24 Before the amendments, IAS 39 and IAS 32 were not consistent with respect to the circumstances in which a commodity-based contract meets the definition of a financial instrument and is accounted for as a derivative. The Board concluded that the amendments should make them consistent on the basis of the notion that a contract to buy or sell a non-financial item should be accounted for as a derivative when it (i) can be settled net or by exchanging financial instruments and (ii) is not held for the purpose of receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements (a 'normal' purchase or sale). In addition, the Board concluded that the notion of when a contract can be settled net should include contracts:

(a) where the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments;

(b) for which the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and

(c) in which the non-financial item that is the subject of the contract is readily convertible to cash.

Because practices of settling net or taking delivery of the underlying and selling it within a short period after delivery also indicate that the contracts are not 'normal' purchases or sales, such contracts are within the scope of IAS 39 and are accounted for as derivatives. The Board also decided to clarify that a written option that can be settled net in cash or another financial instrument, or by exchanging financial instruments, is within the scope of the Standard and cannot qualify as a 'normal' purchase or sale.

## Business combination forward contracts

BC24A The Board was advised that there was diversity in practice regarding the application of the exemption in paragraph 2(g) of IAS 39.[*] Paragraph 2(g) applies to particular contracts associated with a business combination and results in those contracts not being accounted for as derivatives while, for example, necessary regulatory and legal processes are being completed.

BC24B As part of the *Improvements to IFRSs* issued in April 2009, the Board concluded that paragraph 2(g) should be restricted to forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date and should not apply to option contracts, whether or not currently exercisable, that on exercise will result in control of an entity.

BC24C The Board concluded that the purpose of paragraph 2(g) is to exempt from the provisions of IAS 39 contracts for business combinations that are firmly committed to be completed. Once the business combination is consummated, the entity follows the requirements of IFRS 3. Paragraph 2(g) applies only when completion of the business combination is not dependent on further actions of either party (and only the passage of a normal period of

[*] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which amended paragraph 2(g) to clarify that the exception should only apply to forward contracts that result in a business combination within the scope of IFRS 3 *Business Combinations*.

BC217 Some respondents to the Exposure Draft sought guidance on how the effectiveness tests are to be applied to a portfolio hedge. In particular, they asked how the prospective effectiveness test is to be applied when an entity periodically 'rebalances' a hedge (ie adjusts the amount of the hedging instrument to reflect changes in the hedged item). The Board decided that if the entity's risk management strategy is to change the amount of the hedging instrument periodically to reflect changes in the hedged position, that strategy affects the determination of the term of the hedge. Thus, the entity needs to demonstrate that the hedge is expected to be highly effective only for the period until the amount of the hedging instrument is next adjusted. The Board noted that this decision does not conflict with the requirement in paragraph 75 that "a hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding". This is because the entire hedging instrument is designated (and not only some of its cash flows, for example, those to the time when the hedge is next adjusted). However, expected effectiveness is assessed by considering the change in the fair value of the entire hedging instrument only for the period until it is next adjusted.

BC218 A third issue raised in the comment letters was whether, for a portfolio hedge, the retrospective effectiveness test should be assessed for all time buckets in aggregate or individually for each time bucket. The Board decided that entities could use any method to assess retrospective effectiveness, but noted that the chosen method would form part of the documentation of the hedging relationship made at the inception of the hedge in accordance with paragraph 88(a) and hence could not be decided at the time the retrospective effectiveness test is performed.

### Transition to fair value hedge accounting for portfolios of interest rate risk

BC219 In finalising the amendments to IAS 39, the Board considered whether to provide additional guidance for entities wishing to apply fair value hedge accounting to a portfolio hedge that had previously been accounted for using cash flow hedge accounting. The Board noted that such entities could apply paragraph 101(d) to revoke the designation of a cash flow hedge and re-designate a new fair value hedge using the same hedged item and hedging instrument, and decided to clarify this in the Application Guidance. Additionally, the Board concluded that clarification was not required for first-time adopters because IFRS 1 already contained sufficient guidance.

BC220 The Board also considered whether to permit retrospective designation of a portfolio hedge. The Board noted that this would conflict with the principle in paragraph 88(a) that 'at the inception of the hedge there is formal designation and documentation of the hedging relationship' and accordingly, decided not to permit retrospective designation.

### Novation of derivatives and continuation of hedge accounting

BC220A The IASB received an urgent request to clarify whether an entity is required to discontinue hedge accounting for hedging relationships in which a derivative has been designated as a hedging instrument in accordance with IAS 39 when that derivative is novated to a central counterparty (CCP) due to the introduction of a new law or regulation.*

* In this context, the term 'novation' indicates that the parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty.

BC220B The IASB considered the derecognition requirements of IAS 39 to determine whether the novation in such a circumstance leads to the derecognition of an existing derivative that has been designated as a hedging instrument. The IASB noted that a derivative should be derecognised only when it meets both the derecognition criteria for a financial asset and the derecognition criteria for a financial liability in circumstances in which the derivative involves two-way payments between parties (ie the payments are or could be from and to each of the parties).

BC220C The IASB observed that paragraph 17(a) of IAS 39 requires that a financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. The IASB noted that through novation to a CCP, a party (Party A) to the original derivative has new contractual rights to cash flows from a (new) derivative with the CCP, and this new contract replaces the original contract with a counterparty (Party B). Thus the original derivative with Party B has expired and as a consequence the original derivative through which Party A has engaged with Party B shall meet the derecognition criteria for a financial asset.

BC220D The IASB also observed that paragraph AG57(b) of IAS 39 states that a financial liability is extinguished when the debtor is legally released from primary responsibility for the liability. The IASB noted that the novation to the CCP would release Party A from the responsibility to make payments to Party B and also would oblige Party A to make payments to the CCP. Consequently, the original derivative through which Party A has transacted with Party B also meets the derecognition criteria for a financial liability.

BC220E Consequently, the IASB concluded that the novation of a derivative to a CCP would be accounted for as the derecognition of the original derivative and the recognition of the (new) novated derivative.

BC220F Taking into account the conclusion of the assessment on the derecognition requirements, the IASB considered paragraphs 91(a) and 101(a) of IAS 39, which require an entity to discontinue hedge accounting prospectively if the hedging instrument expires or is sold, terminated or exercised. The IASB noted that novation to a CCP would require the entity to discontinue hedge accounting because the derivative that was designated as a hedging instrument has been derecognised and consequently the hedging instrument in the existing hedging relationship no longer exists.

BC220G The IASB, however, was concerned about the financial reporting effects that would arise from novations that result from new laws or regulations. The IASB noted that the requirement to discontinue hedge accounting meant that although an entity could designate the new derivative as the hedging instrument in a new hedging relationship, this could result in more hedge ineffectiveness, especially for cash flow hedges, compared to a continuing hedging relationship. This is because the derivative that would be newly designated as the hedging instrument would be on terms that would be different from a new derivative, ie it was unlikely to be 'at-market' (for example, a non-option derivative such as a swap or forward might have a significant fair value) at the time of the novation. The IASB also noted that there would be an increased risk that the hedging relationship would fail to fall within the 80–125 per cent hedge effectiveness range required by IAS 39.

BC220H The IASB, taking note of these financial reporting effects, was convinced that accounting for the hedging relationship that existed before the novation as a continuing hedging relationship, in this specific situation, would provide more useful information to users of financial statements. The IASB also considered the feedback from outreach that involved the members of the International Forum of Accounting Standard Setters (IFASS) and securities regulators and noted that this issue is not limited to a specific jurisdiction because many jurisdictions have introduced, or are expected to mandate, laws or regulations that encourage or require the novation of derivatives to a CCP.

BC220I The IASB noted that the widespread legislative changes across jurisdictions were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter (OTC) derivatives in an internationally consistent and non-discriminatory way. Specifically, the G20 agreed to improve OTC derivatives markets so that all standardised OTC derivatives contracts are cleared through a CCP.

BC220J The IASB also considered the draft requirements of the forthcoming hedge accounting chapter of IFRS 9. The IASB noted that those draft requirements also would require hedge accounting to be discontinued if the novation to a CCP occurs.

BC220K Consequently, the IASB decided to publish, in January 2013, the Exposure Draft *Novation of Derivatives and Continuation of Hedge Accounting* ('ED/2013/2'), which proposed amendments to IAS 39 and IFRS 9. In ED/2013/2, the IASB proposed to amend paragraphs 91(a) and 101(a) of IAS 39 to provide relief from discontinuing hedge accounting when the novation to a CCP is required by new laws or regulations and meets certain criteria. The IASB decided to set the comment period for those proposals to 30 days. The IASB noted that the reduced comment period was necessary because the amendments should be completed urgently because the new laws or regulations to effect CCP clearing of OTC derivatives would come into force within a short period; the contents of the proposed amendments were short; and there was likely to be a broad consensus on the topic.

BC220L When developing ED/2013/2, the IASB tentatively decided that the terms of the novated derivative should be unchanged other than the change in counterparty, however, the IASB noted that, in practice, other changes may arise as a direct consequence of the novation. For example, in order to enter into a derivative with a CCP it may be necessary to make adjustments to the collateral arrangements. Such narrow changes that are a direct consequence of or are incidental to the novation were acknowledged in the proposed amendments. However, this would not include changes to, for example, the maturity of the derivatives, the payment dates, or the contractual cash flows or the basis of their calculation, except for charges that may arise as a consequence of transacting with a CCP.

BC220M When developing ED/2013/2, the IASB also discussed whether to require an entity to disclose that it has been able to continue hedge accounting by applying the relief provided by these proposed amendments to IAS 39 and IFRS 9. The IASB tentatively decided that it was not appropriate to mandate specific disclosure in this situation because, from the perspective of a user of financial statements, the hedge accounting would be continuing.

BC220N A total of 78 respondents commented on ED/2013/2. The vast majority of respondents agreed that the proposed amendments are necessary. However, a few respondents expressed disagreement with the proposal on the basis that they disagreed with the IASB's conclusion that hedge accounting would be required to be discontinued as a result of such novations. In expressing such disagreement some noted that IAS 39 expressly acknowledges that certain replacements or rollovers of hedging instruments are not expirations or terminations for the purposes of discontinuing hedge accounting. The IASB noted that this exception applies if '[a] replacement or rollover is part of the entity's documented hedging strategy'(IAS 39.91(a) and IAS 39.101(a)). The IASB questioned whether replacement of a contract as a result of unforeseen legislative changes (even if documented) fits the definition of a replacement that is part of a 'documented hedging strategy'.

BC220O Even though the vast majority of respondents agreed with the proposal, a considerable majority of respondents disagreed with the scope of the proposed amendments. They believed that the proposed scope of 'novation required by laws or regulations' is too restrictive and that the scope therefore should be expanded by removing this criterion. In particular, they argued that voluntary novation to a CCP should be provided with the same relief as novation required by laws or regulations. A few respondents further requested that the scope should not be limited to novation to a central counterparty and that novation in other circumstances should also be considered.

BC220P In considering respondents' comments, the IASB noted that voluntary novation to a CCP could be prevalent in some circumstances such as novation in anticipation of regulatory changes, novation due to operational ease, and novation induced but not actually mandated by laws or regulations as a result of the imposition of charges or penalties. The IASB also noted that many jurisdictions would not require the existing stock of outstanding historical derivatives to be moved to CCPs, although this was encouraged by the G20 commitment.

BC220Q The IASB observed, however, that for hedge accounting to continue voluntary novation to a CCP should be associated with laws or regulations that are relevant to central clearing of derivatives. The IASB noted that while a novation need not be required by laws or regulations for hedge accounting to be allowed to continue, allowing all novations to CCPs to be accommodated was broader than the IASB had intended. In addition, the IASB agreed that hedge accounting should continue when novations are performed as a consequence of laws or regulations or the introduction of laws of regulations but noted that the mere possibility of laws or regulations being introduced was not a sufficient basis for the continuation of hedge accounting.

BC220R Some respondents were concerned that restricting the relief to novation directly to a CCP was too narrow. In considering respondents' comments, the IASB noted that in some cases a CCP has a contractual relationship only with its 'clearing members', and therefore an entity must have a contractual relationship with a clearing member in order to transact with a CCP; a clearing member of a CCP provides a clearing service to its client who cannot access a CCP directly. The IASB also noted that some jurisdictions are introducing a so-called 'indirect clearing' arrangement in their laws or regulations to effect clearing with a CCP, by which a client of a clearing member of a CCP provides a (indirect) clearing service to its client in the same way as a clearing member of a CCP provides a clearing service to its client. In addition, the IASB observed that an intragroup novation also can occur in order to access a CCP; for example, if only particular group entities can transact directly with a CCP.

BC220S On the basis of respondents' comments, the IASB decided to expand the scope of the amendments by providing relief for novations to entities other than a CCP if such novation is undertaken with the objective of effecting clearing with a CCP rather than limiting relief to situations in which novation is directly to a CCP. The IASB decided that in these circumstances the novation had occurred in order to effect clearing through a CCP, albeit indirectly. The IASB thus decided also to include such novations in the scope of the amendments because they are consistent with the objective of the proposed amendments—they enable hedge accounting to continue when novations occur as a consequence of laws or regulations or the introduction of laws or regulations that increase the use of CCPs. However, the IASB noted that when parties to a hedging instrument enter into novations with different counterparties (for example, with different clearing members), these amendments only apply if each of those parties ultimately effects clearing with the same central counterparty.

BC220T Respondents raised a concern about the phrase 'if and only if' that was used in ED/2013/2 when describing that the relief is provided 'if and only if' the criteria are met. In considering respondents' comments, the IASB noted that ED/2013/2 was intended to address a narrow issue—novation to CCPs—and therefore changing the phrase 'if and only if' to 'if' would target the amendment on the fact patterns that the IASB sought to address. The IASB noted that this would have the effect of requiring an analysis of whether the general conditions for continuation of hedge accounting are satisfied in other cases (for example, as was raised by some respondents, in determining the effect of intragroup novations in consolidated financial statements).

BC220U The IASB decided to make equivalent amendments to the forthcoming chapter on hedge accounting that will be incorporated into IFRS 9, as proposed in ED/2013/2; no respondents opposed this proposal.

BC220V ED/2013/2 did not propose any additional disclosures. The vast majority of respondents agreed with this. The IASB confirmed that additional disclosures are not required. However, the IASB noted that an entity may consider disclosures in accordance with IFRS 7 *Financial Instruments: Disclosures*, which requires qualitative and quantitative disclosures about credit risk.

BC220W The IASB also decided to retain in the final amendments the transition requirements proposed in ED/2013/2 so that the amendments should apply retrospectively and early application should be permitted. The IASB noted that even with retrospective application, if an entity had previously discontinued hedge accounting, as a result of a novation, that (pre-novation) hedge accounting relationship could not be reinstated because doing so would be inconsistent with the requirements for hedge accounting (ie hedge accounting cannot be applied retrospectively).

# Elimination of selected differences from US GAAP

BC221 The Board considered opportunities to eliminate differences between IAS 39 and US GAAP. The guidance on measurement and hedge accounting under revised IAS 39 is generally similar to that under US GAAP. The amendments will further reduce or eliminate differences between IAS 39 and US GAAP in the areas listed below. In some other areas, a difference will remain. For example, US GAAP in many, but not all, areas is more detailed, which may result in a difference in accounting when an entity applies an accounting approach under IAS 39 that would not be permitted under US GAAP.

*Contracts to buy or sell a non-financial item*

(a) The Board decided that a contract to buy or sell a non-financial item is a derivative within the scope of IAS 39 if the non-financial item that is the subject

**This page is intentionally left blank**

**This page is intentionally left blank**

HKAS 39 IG
Revised ~~July~~ November 2014

*Guidance on Implementing*
*Hong Kong Accounting Standard 39*

# Financial Instruments:

# Recognition and Measurement

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

**SECTION C EMBEDDED DERIVATIVES**

C.1 Embedded derivatives: separation of host debt instrument
C.2 Embedded derivatives: separation of embedded option
C.3 Embedded derivatives: accounting for a convertible bond
C.4 Embedded derivatives: equity kicker
C.5 Embedded derivatives: debt or equity host contract
C.6 Embedded derivatives: synthetic instruments
C.7 Embedded derivatives: purchases and sales contracts in foreign currency instruments
C.8 Embedded foreign currency derivatives: unrelated foreign currency provision
C.9 Embedded foreign currency derivatives: currency of international commerce
C.10 Embedded derivatives: holder permitted, but not required, to settle without recovering substantially all of its recognised investment
C.11 Embedded derivatives: reliable determination of fair value

**SECTION D RECOGNITION AND DERECOGNITION**

**D.1 Initial recognition**
D.1.1 Recognition: cash collateral
**D.2 Regular way purchase or sale of a financial asset**
D.2.1 Trade date vs settlement date: amounts to be recorded for a purchase
D.2.2 Trade date vs settlement date: amounts to be recorded for a sale
D.2.3 Settlement date accounting: exchange of non-cash financial assets

**SECTION E MEASUREMENT**

**E.1 Initial measurement of financial assets and financial liabilities**
E.1.1 Initial measurement: transaction costs
~~**E.2 Fair value measurement considerations**~~
~~E.2.1 Fair value measurement considerations for investment funds~~
~~E.2.2 Fair value measurement: large holding~~
**E.3 Gains and losses**
E.3.1 Available-for-sale financial assets: exchange of shares
E.3.2 IAS 39 and IAS 21 – Available-for-sale financial assets: separation of currency component
E.3.3 IAS 39 and IAS 21 – Exchange differences arising on translation of foreign entities: equity or income?
E.3.4 IAS 39 and IAS 21 – Interaction between IAS 39 and IAS 21
**E.4 Impairment and uncollectibility of financial assets**
E.4.1 Objective evidence of impairment
E.4.2 Impairment: future losses
E.4.3 Assessment of impairment: principal and interest
E.4.4 Assessment of impairment: fair value hedge
E.4.5 Impairment: provision matrix
E.4.6 Impairment: excess losses
E.4.7 Recognition of impairment on a portfolio basis
E.4.8 Impairment: recognition of collateral
E.4.9 Impairment of non-monetary available-for-sale financial asset
E.4.10 Impairment: whether the available-for-sale reserve in equity can be negative

## E.2 [Deleted]~~Fair value measurement considerations~~

**~~E.2.1 Fair value measurement considerations for investment funds~~**

**~~IAS 39.AG72 states that the current bid price is usually the appropriate price to be used in measuring the fair value of an asset held. The rules applicable to some investment funds require net asset values to be reported to investors on the basis of mid-market prices. In these circumstances, would it be appropriate for an investment fund to measure its assets on the basis of mid-market prices?~~**

~~No. The existence of regulations that require a different measurement for specific purposes does not justify a departure from the general requirement in IAS 39.AG72 to use the current bid price in the absence of a matching liability position. In its financial statements, an investment fund measures its assets at current bid prices. In reporting its net asset value to investors, an investment fund may wish to provide a reconciliation between the fair values recognised in its statement of financial position and the prices used for the net asset value calculation.~~

**E.2.2 [Deleted]~~Fair value measurement: large holding~~**

**~~Entity A holds 15 per cent of the share capital in Entity B. The shares are publicly traded in an active market. The currently quoted price is CU100. Daily trading volume is 0.1 per cent of outstanding shares. Because Entity A believes that the fair value of the Entity B shares it owns, if sold as a block, is greater than the quoted market price, Entity A obtains several independent estimates of the price it would obtain if it sells its holding. These estimates indicate that Entity A would be able to obtain a price of CU105, ie a 5 per cent premium above the quoted price. Which figure should Entity A use for measuring its holding at fair value?~~**

~~Under IAS 39.AG71, a published price quotation in an active market is the best estimate of fair value. Therefore, Entity A uses the published price quotation (CU100). Entity A cannot depart from the quoted market price solely because independent estimates indicate that Entity A would obtain a higher (or lower) price by selling the holding as a block.~~

HKFRS 1 (Revised)
Revised ~~July~~ November 2014

---

Effective for annual periods
beginning on or after 1 July 2009

*Hong Kong Financial Reporting Standards 1 (Revised)*

---

# First-time Adoption of Hong Kong Financial Reporting Standards

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

39S *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraph D31. An entity shall apply that amendment when it applies HKFRS 11 (as amended in July 2012).

39T *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

## Withdrawal of HKFRS 1 (issued 2003)

40 This HKFRS supersedes HKFRS 1 (issued in 2003 and amended at December 2008).

## Assets and liabilities of subsidiaries, associates and joint ventures

D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

(a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to HKFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in HKFRS 10, that is required to be measured at fair value through profit or loss); or

(b) the carrying amounts required by the rest of this HKFRS, based on the subsidiary's date of transition to HKFRSs. These carrying amounts could differ from those described in (a):

(i) when the exemptions in this HKFRS result in measurements that depend on the date of transition to HKFRSs.

(ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in HKAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

## Compound financial instruments

D18 HKAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of HKAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this HKFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to HKFRSs.

## Designation of previously recognised financial instruments

D19 HKAS 39 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:

(a) an entity is permitted to make an available-for-sale designation at the date of transition to HKFRSs.

(b) an entity is permitted to designate, at the date of transition to HKFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of HKAS 39 at that date.

# Appendix E
# Short-term exemptions from HKFRSs

*This appendix is an integral part of the HKFRS.*

[*Paragraphs E1 and E2 are amendments that are not yet effective and are therefore not included in this edition.]*

## Disclosures about financial instruments

E3 A first-time adopter may apply the transition provisions in paragraph 44G of HKFRS 7.*

E4 A first-time adopter may apply the transitional provisions in paragraph 44M of HKFRS 7.†

## Employee benefits

E5 A first-time adopter may apply the transition provisions in paragraph 173(b) of HKAS 19.

## Investment entities

E6 A first-time adopter that is a parent shall assess whether it is an investment entity, as defined in HKFRS 10, on the basis of the facts and circumstances that exist at the date of transition to HKFRSs.

E7 A first-time adopter that is an investment entity, as defined in HKFRS 10, may apply the transition provisions in paragraphs C3C–C3D of HKFRS 10 and paragraphs 18C–18G of HKAS 27 (2011) if its first HKFRS financial statements are for an annual period ending on or before 31 December 2014. The references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to HKFRSs.

* Paragraph E3 was added as a consequence of *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* (Amendment to HKFRS 1) issued in February 2010. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current HKFRS preparers, first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with HKFRSs that are included in *Improving Disclosures about Financial Instruments* (Amendments to HKFRS 7).

† Paragraph E4 was added as a consequence of *Disclosures—Transfers of Financial Assets* (Amendments to HKFRS 7) issued in October 2010. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current HKFRS preparers, first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with HKFRSs that are included in *Disclosures—Transfers of Financial Assets* (Amendments to HKFRS 7).

HKFRS 1 (Revised) BC
Revised ~~July~~ November 2014

Effective for annual periods
beginning on or after 1 July 2009

*Basis for Conclusions on*
*Hong Kong Financial Reporting Standards 1 (Revised)*

# First-time Adoption of Hong Kong Financial Reporting Standards

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

(j) changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment (paragraphs BC63C and BC63CA);

(k) leases (paragraphs BC63D-BC63DB);

(l) borrowing costs (paragraph BC63E);

(m) severe hyperinflation (paragraphs BC63F – BC63J); and

(n) joint arrangements (paragraphs BC63K and BC63L).

**Business combinations*[*]**

BC31 The following paragraphs discuss various aspects of accounting for business combinations that an entity recognised in accordance with previous GAAP before the date of transition to IFRSs:

(a) whether retrospective restatement of past business combinations should be prohibited, permitted or required (paragraphs BC32–BC34).

(b) whether an entity should recognise assets acquired and liabilities assumed in a past business combination if it did not recognise them in accordance with previous GAAP (paragraph BC35).

(c) whether an entity should restate amounts assigned to the assets and liabilities of the combining entities if previous GAAP brought forward unchanged their pre-combination carrying amounts (paragraph BC36).

(d) whether an entity should restate goodwill for adjustments made in its opening IFRS balance sheet to the carrying amounts of assets acquired and liabilities assumed in past business combinations (paragraphs BC37–BC40).

BC32 Retrospective application of IFRS 3 *Business Combinations* could require an entity to recreate data that it did not capture at the date of a past business combination and make subjective estimates about conditions that existed at that date. These factors could reduce the relevance and reliability of the entity's first IFRS financial statements. Therefore, ED 1 would have prohibited restatement of past business combinations (unless an entity used the proposed alternative approach, discussed in paragraph BC15, of applying IFRSs as if it had always applied IFRSs). Some respondents agreed, arguing that restatement of past business combinations would involve subjective, and potentially selective, use of hindsight that would diminish the relevance and reliability of financial statements.

BC33 Other respondents disagreed. They argued that:

(a) effects of business combination accounting can last for many years. Previous GAAP may differ significantly from IFRSs, and in some countries there are no accounting requirements at all for business combinations. Previous GAAP balances might not result in decision-useful information in these countries.

(b) restatement is preferable and may not involve as much cost or effort for more recent business combinations.

BC34 In the light of these comments, the Board concluded that restatement of past business combinations is conceptually preferable, although for cost-benefit reasons this should be permitted but not required. The Board decided to place some limits on this election and noted that information is more likely to be available for more recent business combinations. Therefore, if a first-time adopter restates any business combination, the IFRS requires it to restate all later business combinations (paragraph C1 of the IFRS).

[*] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which stated that Appendix C of IFRS 1 should only apply to business combinations within the scope of IFRS 3 *Business Combinations*.

BC63 In finalising the IFRS, the Board simplified the description of the exemption for a subsidiary that adopts IFRSs after its parent. In accordance with the IFRS, the subsidiary may measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.[*] Alternatively, it may elect to measure them at the carrying amounts required by the rest of the IFRS, based on the subsidiary's date of transition to IFRSs. The Board also extended the exemption to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it (paragraph D16 of the IFRS). However, if a parent adopts IFRSs later than a subsidiary, the parent cannot, in its consolidated financial statements, elect to change IFRS measurements that the subsidiary has already used in its financial statements, except to adjust for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary[#] (paragraph D17 of the IFRS).

## Designation of previously recognised financial instruments

BC63A IAS 39 permits an entity to designate, on initial recognition only, a financial instrument as (a) available for sale (for a financial asset) or (b) a financial asset or financial liability at fair value through profit or loss (provided the asset or liability qualifies for such designation in accordance with paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39). Despite this requirement, an entity that had already applied IFRSs before the effective date of IAS 39 (as revised in March 2004) may (a) designate a previously recognised financial asset as available for sale on initial application of IAS 39 (as revised in March 2004), or (b) designate a previously recognised financial instrument as at fair value through profit or loss in the circumstances specified in paragraph 105B of IAS 39. The Board decided that the same considerations apply to first-time adopters as to entities that already apply IFRSs. Accordingly, a first-time adopter of IFRSs may similarly designate a previously recognised financial instrument in accordance with paragraph D19 of the IFRS. Such an entity shall disclose the fair value of the financial assets or financial liabilities designated into each category at the date of designation and their classification and carrying amount in the previous financial statements.

### Share-based payment transactions

BC63B IFRS 2 *Share-based Payment* contains various transitional provisions. For example, for equity-settled share-based payment arrangements, IFRS 2 requires an entity to apply IFRS 2 to shares, share options or other equity instruments that were granted after 7 November 2002 and had not vested at the effective date of IFRS 2. IFRS 2 is effective for annual periods beginning on or after 1 January 2005. There are also transitional arrangements for liabilities arising from cash-settled share-based payment transactions, and for modifications of the terms or conditions of a grant of equity instruments to which IFRS 2 has not been applied, if the modification occurs after the effective date of IFRS 2. The Board decided that, in general, first-time adopters should be treated in the same way as entities that already apply IFRSs. For example, a first-time adopter should not be required to apply IFRS 2 to equity instruments that were granted on or before 7 November 2002. Similarly, a first-time adopter should not be required to apply IFRS 2 to equity instruments that were granted after 7 November 2002 if those equity instruments vested before 1 January 2005. In addition, the Board decided that a first-time adopter should not be required to apply IFRS 2 to equity instruments that were granted after 7 November 2002 if those equity instruments vested before the date of transition to IFRSs. Similarly, the Board decided that a first-time adopter should not be required to apply IFRS 2 to liabilities arising from cash-settled share-based payment transactions if those liabilities were settled before the date of transition to IFRSs.

### Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment

BC63C IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in decommissioning, restoration and similar liabilities to be added to, or deducted from, the cost of the assets to which they relate, and the adjusted depreciable amount to be depreciated prospectively over the remaining useful life of those assets. Retrospective application of this requirement at the date of transition would require an entity to construct a historical record of all such adjustments that would have been made in the past. In many cases this will not be practicable. The Board agreed that, as an alternative to complying with this requirement,

[*] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which removed option D16(a) for investments in subsidiaries of investment entities, as defined in IFRS 10 *Consolidated Financial Statements*, required to be measured at fair value through profit or loss.

[#] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which amended paragraph D17 to clarify its application to investment entities, as defined in IFRS 10.

HKFRS 3 (Revised)
Revised ~~July~~ November 2014

---

Effective for annual periods beginning on or after 1 July 2009

*Hong Kong Financial Reporting Standard 3 (Revised)*

# Business Combinations

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

## Applying the acquisition method

IN6 A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control or the acquiree is a subsidiary of an investment entity, as defined in HKFRS 10 *Consolidated Financial Statements*, which is required to be measured at fair value through profit or loss. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

IN7 The HKFRS establishes principles for recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any classifications or designations made in recognising these items must be made in accordance with the contractual terms, economic conditions, acquirer's operating or accounting policies and other factors that exist at the acquisition date.

IN8 Each identifiable asset and liability is measured at its acquisition-date fair value. Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

IN9 The HKFRS provides limited exceptions to these recognition and measurement principles:

(a) Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors at the inception of the contract (or when the terms have changed) rather than on the basis of the factors that exist at the acquisition date.

(b) Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognised.

(c) Some assets and liabilities are required to be recognised or measured in accordance with other HKFRSs, rather than at fair value. The assets and liabilities affected are those falling within the scope of HKAS 12 *Income Taxes*, HKAS 19 *Employee Benefits*, HKFRS 2 *Share-based Payment* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(d) There are special requirements for measuring a reacquired right.

(e) Indemnification assets are recognised and measured on a basis that is consistent with the item that is subject to the indemnification, even if that measure is not fair value.

IN10 The HKFRS requires the acquirer, having recognised the identifiable assets, the liabilities and any non-controlling interests, to identify any difference between:

(a) the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and

(b) the net identifiable assets acquired.

The difference will, generally, be recognised as goodwill. If the acquirer has made a gain from a bargain purchase that gain is recognised in profit or loss.

IN11 The consideration transferred in a business combination (including any contingent consideration) is measured at fair value.

# Hong Kong Financial Reporting Standard 3
# *Business Combinations*

## Objective

1 The objective of this HKFRS is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a *business combination* and its effects. To accomplish that, this HKFRS establishes principles and requirements for how the *acquirer*:

(a) recognises and measures in its financial statements the *identifiable* assets acquired, the liabilities assumed and any *non-controlling interest* in the *acquiree*;

(b) recognises and measures the *goodwill* acquired in the business combination or a gain from a bargain purchase; and

(c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

## Scope

2 This HKFRS applies to a transaction or other event that meets the definition of a business combination. This HKFRS does not apply to:

(a) the formation of a joint venture.

(b) the acquisition of an asset or a group of assets that does not constitute a *business*. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, *intangible assets* in HKAS 38 *Intangible Assets*) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative *fair values* at the date of purchase. Such a transaction or event does not give rise to goodwill.

(c) a combination of entities or businesses under common control (paragraphs B1–B4 provide related application guidance).

2A The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in HKFRS 10 *Consolidated Financial Statements*, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

## Identifying a business combination

**3 An entity shall determine whether a transaction or other event is a business combination by applying the definition in this HKFRS, which requires that the assets acquired and liabilities assumed constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Paragraphs B5–B12 provide guidance on identifying a business combination and the definition of a business.**

## The acquisition method

**4 An entity shall account for each business combination by applying the acquisition method.**

5 Applying the acquisition method requires:

(a) identifying the acquirer;

(b) determining the *acquisition date*;

(c) recognising and measuring the identifiable assets acquired, the liabilities assumed

and any non-controlling interest in the acquiree; and

(d) recognising and measuring goodwill or a gain from a bargain purchase.

## Identifying the acquirer

**6 For each business combination, one of the combining entities shall be identified as the acquirer.**

7 The guidance in HKFRS 10 ~~*Consolidated Financial Statements*~~ shall be used to identify the acquirer—the entity that obtains *control* of another entity, i.e. the acquiree. If a business combination has occurred but applying the guidance in HKFRS 10 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14–B18 shall be considered in making that determination.

## Determining the acquisition date

**8 The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

9 The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

## Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

### Recognition principle

**10 As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.**

*Recognition conditions*

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements*[*] at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other HKFRSs.

12 In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former *owners*) exchanged in the business combination transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 51–53 to determine which assets acquired or liabilities assumed are part of the exchange for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable HKFRSs.

* *Framework for the Preparation and Presentation of Financial Statements* was replaced by the *Conceptual Framework for Financial Reporting* in October 2010.

60 To meet the objective in paragraph 59, the acquirer shall disclose the information specified in paragraphs B64-B66.

**61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.**

62 To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67.

63 If the specific disclosures required by this and other HKFRSs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

## Effective date and transition

### Effective date

64 This HKFRS shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Earlier application is permitted. However, this HKFRS shall be applied only at the beginning of an annual reporting period that begins on or after 30 June 2007. If an entity applies this HKFRS before 1 July 2009, it shall disclose that fact and apply HKAS 27 (as amended in 2008) at the same time.

*64A [This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

64B *Improvements to HKFRSs* issued in May 2010 amended paragraphs 19, 30 and B56 and added paragraphs B62A and B62B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date when the entity first applied this HKFRS.

64C Paragraphs 65A–65E were added by *Improvements to HKFRSs* issued in May 2010. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. The amendments shall be applied to contingent consideration balances arising from business combinations with an acquisition date prior to the application of this HKFRS, as issued in 2008.

*64D [This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

64E HKFRS 10, issued in June 2011, amended paragraphs 7, B13, B63(e) and Appendix A. An entity shall apply those amendments when it applies HKFRS 10.

64F HKFRS 13 *Fair Value Measurement*, issued in June 2011, amended paragraphs 20, 29, 33, 47, amended the definition of fair value in Appendix A and amended paragraphs B22, B40, B43–B46, B49 and B64. An entity shall apply those amendments when it applies HKFRS 13.

64G *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 7 and added paragraph 2A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies these amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

### Transition

65 Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this HKFRS shall not be adjusted upon application of this HKFRS.

HKFRS 3 (Revised) BC
Revised ~~July~~ November 2014

*Basis for Conclusions on*
*Hong Kong Financial Reporting Standard 3 (Revised)*

# Business Combinations

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

of businesses would require further research and deliberation of additional issues and delay the implementation of the revised standards' improvements to practice. The boards therefore did not extend the scope of the revised standards to acquisitions of all asset groups. Paragraph 2(b) of the revised IFRS 3 describes the typical accounting for an asset acquisition.

BC21 SFAS 141(R) amends FASB Interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* (FASB Interpretation 46(R)) to clarify that the initial consolidation of a variable interest entity that is a business is a business combination. Therefore, the assets, liabilities and non-controlling interests of the variable interest entity should be measured in accordance with the requirements of SFAS 141(R). Previously, FASB Interpretation 46(R) required assets, liabilities and non-controlling interests of variable interest entities that are businesses to be measured at fair value. The FASB concluded that variable interest entities that are businesses should be afforded the same exceptions to fair value measurement and recognition that are provided for assets and liabilities of acquired businesses. The FASB also decided that upon the initial consolidation of a variable interest entity that is not a business, the assets (other than goodwill), liabilities and non-controlling interests should be recognised and measured in accordance with the requirements of SFAS 141(R), rather than at fair value as previously required by FASB Interpretation 46(R). The FASB reached that decision for the same reasons described above, ie if SFAS 141(R) allows an exception to fair value measurement for a particular asset or liability, it would be inconsistent to require the same type of asset or liability to be measured at fair value. Except for that provision, the FASB did not reconsider the requirements in FASB Interpretation 46(R) for the initial consolidation of a variable interest entity that is not a business.

## Method of accounting for business combinations

BC22 Both IAS 22 and APB Opinion 16 permitted use of either the acquisition method or the pooling of interests (pooling) method of accounting for a business combination, although the two methods were not intended as alternatives for the same set of facts and circumstances. ED 3 and the 1999 Exposure Draft proposed, and IFRS 3 and SFAS 141 required, use of the acquisition method to account for all business combinations. The boards did not redeliberate that conclusion during the project that led to the revised standards.

BC23 In developing IFRS 3 and SFAS 141, the IASB and the FASB considered three possible methods of accounting for business combinations–the pooling method, the acquisition method and the fresh start method. In assessing those methods, both boards were mindful of the disadvantages of having more than one method of accounting for business combinations, as evidenced by the experience with IAS 22 and APB Opinion 16. The boards concluded that having more than one method could be justified only if the alternative method (or methods) could be demonstrated to produce information that is more decision-useful and if unambiguous and non-arbitrary boundaries could be established that unequivocally distinguish when one method is to be applied instead of another. The boards also concluded that most business combinations are acquisitions and, for the reasons discussed in paragraphs BC24–BC28, that the acquisition method is the appropriate method for those business combinations. Respondents to ED 3 and the 1999 Exposure Draft generally agreed. Therefore, neither the pooling method nor the fresh start method could be appropriately used for all business combinations.

### Reasons for adopting the acquisition method

BC24 Both boards concluded that the acquisition method is the appropriate method of accounting for all business combinations in which one entity obtains control of one or more other businesses[*] because that method is consistent with how the accounting model generally accounts for transactions in which assets are acquired and liabilities are assumed or incurred. Therefore, it produces information that is comparable with other accounting information.

[*] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which removed from the scope of IFRS 3 *Business Combinations* the acquisition by an investment entity, as defined in IFRS 10 *Consolidated Financial Statements*, of an investment in a subsidiary required to be measured at fair value through profit or loss.

overpayment at the acquisition date. Accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises.

## Additional guidance for particular types of business combinations

BC383 To help entities apply the acquisition method as required by the revised standards, the boards decided to provide additional guidance for business combinations achieved in stages and those achieved without the transfer of consideration. Paragraphs BC384–BC389 discuss the guidance provided on business combinations achieved in stages. The guidance on combinations achieved without the transfer of consideration merely responds to a question about how to report the acquiree's net assets in the equity section of the acquirer's post-combination statement of financial position, and this Basis for Conclusions does not discuss that guidance further.

### Business combinations achieved in stages

BC384 In a business combination achieved in stages, the acquirer remeasures its previously held equity interest at its acquisition-date fair value and recognises the related gain or loss in profit or loss (paragraph 42 of the revised IFRS 3). The boards concluded that a change from holding a non-controlling investment in an entity to obtaining control of that entity is a significant change in the nature of and economic circumstances surrounding that investment. That change warrants a change in the classification and measurement of that investment. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree. As in present practice, the acquirer ceases its accounting for an investment asset and begins reporting in its financial statements the underlying assets, liabilities and results of operations of the acquiree.[*] In effect, the acquirer exchanges its status as an owner of an investment asset in an entity for a controlling financial interest in all of the underlying assets and liabilities of that entity (acquiree) and the right to direct how the acquiree and its management use those assets in its operations.

BC385 In August 2003 the FASB held a round-table meeting with members of its resource group on business combinations and other constituents to discuss, among other things, the decision to require an acquirer to remeasure any previously held equity investment in an acquiree at its acquisition-date fair value and to recognise in earnings any gain or loss. The users of financial statements indicated they did not have significant concerns with that change to present practice, as long as the amount of the gain or loss is clearly disclosed in the financial statements or in the notes. Paragraph B64(p) of the revised IFRS 3 requires that disclosure.

BC386 The boards rejected the view expressed by some constituents that the carrying amount of any pre-acquisition investment should be retained in the initial accounting for the cost of the business acquired. The boards concluded that cost-accumulation practices led to many of the inconsistencies and deficiencies in financial reporting as required by SFAS 141 and, to a lesser extent, by IFRS 3 (see paragraphs BC198–BC202).

BC387 Some constituents also expressed concern about what they described as allowing an opportunity for gain recognition on a purchase transaction. The boards noted that the required remeasurement could also result in loss recognition. Moreover, the boards rejected the characterisation that the result is to recognise a gain or loss on a purchase. Rather, under today's mixed attribute accounting model, economic gains and losses are recognised as they occur for some, but not all, financial instruments. If an equity interest in an entity is not required to be measured at its fair value, the recognition of a gain or loss at the acquisition date is merely a consequence of the delayed recognition of the economic gain or loss that is present in that financial instrument. If the investment asset had been measured at fair value at the end of each reporting period, the gain or loss would have been recognised as it occurred and measurement of the asset at its acquisition-date fair value would result in no further gain or loss.

[*] In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which required investment entities, as defined in IFRS 10, to measure their investments in subsidiaries, other than those providing investment-related services or activities, at fair value through profit or loss.

HKFRS 5
Revised ~~June~~ November 2014

Effective for annual periods
beginning on or after 1 January 2005

*Hong Kong Financial Reporting Standard 5*

# Non-current Assets Held for Sale and Discontinued Operations

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

(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.

33 An entity shall disclose:

(a) a single amount in the statement of comprehensive income comprising the total of:

(i) the post-tax profit or loss of discontinued operations and

(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

(b) an analysis of the single amount in (a) into:

(i) the revenue, expenses and pre-tax profit or loss of discontinued operations;

(ii) the related income tax expense as required by paragraph 81(h) of HKAS 12; ~~and~~

(iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(iv) ~~[deleted]~~the related income tax expense as required by paragraph 81(h) of HKAS 12.

The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income it shall be presented in a section identified as relating to discontinued operations, ie separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

(d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of comprehensive income.

33A If an entity presents the items of profit or loss in a separate statement as described in paragraph 10A of HKAS 1 (as amended in 2011), a section identified as relating to discontinued operations is presented in that statement.

HKFRS 5 IG
Revised ~~June~~ November 2014

*Guidance on Implementing*
*Hong Kong Financial Reporting Standard 5*

# Non-current Assets Held for Sale and Discontinued Operations

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

***… continued***

| | | |
|---|---|---|
| Current liabilities | | |
| KKK | X | X |
| LLL | X | X |
| MMM | X | X |
| | | |
| Liabilities directly associated with non-current assets classified as held for sale | 3,300 | - |
| | X | X |
| Total liabilities | X | X |
| Total equity and liabilities | X | X |

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statement of financial position for any previous periods are therefore not re-presented.

## Measuring and presenting subsidiaries acquired with a view to resale and classified as held for sale

A subsidiary acquired with a view to sale is not exempt from consolidation in accordance with IFRS 10 *Consolidated Financial Statements*, unless the acquirer is an investment entity, as defined in IFRS 10, and is required to measure the investment in that subsidiary at fair value through profit or loss. However, if it meets the criteria in paragraph 11, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

## Example 13

Entity A acquires an entity H, which is a holding company with two subsidiaries, S1 and S2. S2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 32(c), S2 is also a discontinued operation.

The fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:

- initially, A measures the identifiable liabilities of S2 at fair value, say at CU40
- initially, A measures the acquired assets as the fair value less costs to sell of S2 (CU135) plus the fair value of the identifiable liabilities (CU40), ie at CU175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at CU130. The liabilities are remeasured in accordance with applicable IFRSs, say at CU35. The total assets are measured at CU130+CU35, ie at CU165

© Copyright 

HKFRS 7
Revised ~~May~~ November 2014

Effective for annual periods
beginning on or after 1 January 2007

*Hong Kong Financial Reporting Standard 7*

# Financial Instruments: Disclosures

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

## Withdrawal of HKAS 30

44X *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 3. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

45 This HKFRS supersedes HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*.

HKFRS 12

Revised ~~December 2012~~November 2014

Effective for annual periods beginning on or after 1 January 2013

*Hong Kong Financial Reporting Standard 12*

# Disclosure of Interests in Other Entities

Hong Kong Institute of Certified Public Accountants

香港會計師公會

## COPYRIGHT

© Copyright 2014 Hong Kong Institute of Certified Public Accountants

This Hong Kong Financial Reporting Standard contains IFRS Foundation copyright material. Reproduction within Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and inquiries concerning reproduction and rights for commercial purposes within Hong Kong should be addressed to the Director, Finance and Operation, Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

All rights in this material outside of Hong Kong are reserved by IFRS Foundation. Reproduction of Hong Kong Financial Reporting Standards outside of Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Hong Kong should be addressed to the IFRS Foundation at www.ifrs.org.

Further details of the copyright notice form IFRS Foundation is available at
http://app1.hkicpa.org.hk/ebook/copyright-notice.pdf

## CONTENTS

| | from *paragraph* |
|---|---|
| **INTRODUCTION** | **IN1** |
| **HONG KONG FINANCIAL REPORTING STANDARD 12** ***DISCLOSURE OF INTERESTS IN OTHER ENTITIES*** | |
| **OBJECTIVE** | **1** |
| **Meeting the objective** | **2** |
| **SCOPE** | **5** |
| **SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS** | **7** |
| **Investment entity status** | **9A** |
| **INTERESTS IN SUBSIDIARIES** | **10** |
| **The interest that non-controlling interests have in the group's activities and cash flows** | **12** |
| **The nature and extent of significant restrictions** | **13** |
| **Nature of the risks associated with an entity's interests in consolidated structured entities** | **14** |
| **Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control** | **18** |
| **Consequence of losing control of a subsidiary during the reporting period** | **19** |
| **INTERESTS IN UNCONSOLIDATED SUBSIDIARIES (INVESTMENT ENTITIES)** | **19A** |
| **INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES** | **20** |
| **Nature, extent and financial effects of an entity's interests in joint arrangements and associates** | **21** |
| **Risks associated with an entity's interests in joint ventures and associates** | **23** |
| **INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES** | **24** |
| **Nature of interests** | **26** |
| **Nature of risks** | **29** |

**APPENDICES**

**A Defined terms**

**B Application guidance**

**C Effective date and transition**

**D Amendments to other HKFRSs**

**E Comparison with International Financial Reporting Standards**

**BASIS FOR CONCLUSIONS** *(see separate booklet)*

Hong Kong Financial Reporting Standard 12 *Disclosure of Interests in Other Entities* (HKFRS 12) is set out in paragraphs 1–31 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the HKFRS. Definitions of other terms are given in the Glossary for Hong Kong Financial Reporting Standards. HKFRS 12 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Introduction

IN1 HKFRS 12 *Disclosure of Interests in Other Entities* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IN2 The HKFRS is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

## Reasons for issuing the HKFRS

IN3 Users of financial statements have consistently requested improvements to the disclosure of a reporting entity's interests in other entities to help identify the profit or loss and cash flows available to the reporting entity and determine the value of a current or future investment in the reporting entity.

IN4 They highlighted the need for better information about the subsidiaries that are consolidated, as well as an entity's interests in joint arrangements and associates that are not consolidated but with which the entity has a special relationship.

IN5 The global financial crisis that started in 2007 also highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored.

IN6 In response to input received from users and others, including the G20 leaders and the Financial Stability Board, the International Accounting Standards Board decided to address in IFRS 12 (that is, the international equivalent of HKFRS 12) the need for improved disclosure of a reporting entity's interests in other entities when the reporting entity has a special relationship with those other entities.

IN7 The IASB identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single standard. The IASB observed that the disclosure requirements of HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures* overlapped in many areas. In addition, many commented that the disclosure requirements for interests in unconsolidated structured entities should not be located in a consolidation standard. Therefore, the IASB concluded that a combined disclosure standard for interests in other entities would make it easier to understand and apply the disclosure requirements for subsidiaries, joint ventures, associates and unconsolidated structured entities.

## Main features of the HKFRS

IN8 The HKFRS requires an entity to disclose information that enables users of financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and

(b) the effects of those interests on its financial position, financial performance and cash flows

## General requirements

IN9 The HKFRS establishes disclosure objectives according to which an entity discloses information that enables users of its financial statements

(a) to understand:

(i) the significant judgements and assumptions (and changes to those judgements and assumptions) made in determining the nature of its interest in another entity or arrangement (ie control, joint control or significant influence), and in determining the type of joint arrangement in which it has an interest; and

(ii) the interest that non-controlling interests have in the group's activities and cash flows; and

(b) to evaluate:

(i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;

(ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities;

(iii) the nature and extent of its interests in unconsolidated structured entities, and the nature of, and changes in, the risks associated with those interests;

(iv) the nature, extent and financial effects of its interests in joint arrangements and associates, and the nature of the risks associated with those interests;

(v) the consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control; and

(vi) the consequences of losing control of a subsidiary during the reporting period.

IN10 The HKFRS specifies minimum disclosures that an entity must provide. If the minimum disclosures required by the HKFRS are not sufficient to meet the disclosure objective, an entity discloses whatever additional information is necessary to meet that objective.

IN11 The HKFRS requires an entity to consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in the HKFRS. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

IN12 *Investment Entities* (Amendments to HKIFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, introduced an exception to the principle in HKFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investment in particular subsidiaries at fair value through profit or loss in accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement*, if HKFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in this HKFRS and HKAS 27 (2011) *Separate Financial Statements*.

# Hong Kong Financial Reporting Standard 12
# *Disclosure of Interests in Other Entities*

## Objective

1 **The objective of this HKFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:**

**(a) the nature of, and risks associated with, its *interests in other entities*; and**

**(b) the effects of those interests on its financial position, financial performance and cash flows.**

## Meeting the objective

2 To meet the objective in paragraph 1, an entity shall disclose:

(a) the significant judgements and assumptions it has made in determining:

(i) the nature of its interest in another entity or arrangement;, and in determining

(ii) the type of joint arrangement in which it has an interest (paragraphs 7–9);

(iii) that it meets the definition of an investment entity, if applicable (paragraph 9A); and

(b) information about its interests in:

(i) subsidiaries (paragraphs 10–19);

(ii) joint arrangements and associates (paragraphs 20–23); and

(iii) *structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 24–31).

3 If the disclosures required by this HKFRS, together with disclosures required by other HKFRSs, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.

4 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this HKFRS. It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs B2–B6).

## Scope

5 This HKFRS shall be applied by an entity that has an interest in any of the following:

(a) subsidiaries

(b) joint arrangements (ie joint operations or joint ventures)

(c) associates

(d) unconsolidated structured entities.

6 This HKFRS does not apply to:

(a) post-employment benefit plans or other long-term employee benefit plans to which HKAS 19 *Employee Benefits* applies.

(b) an entity's separate financial statements to which HKAS 27 *Separate Financial Statements* applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements.

(c) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.

(d) an interest in another entity that is accounted for in accordance with HKFRS 9 *Financial Instruments*. However, an entity shall apply this HKFRS:

(i) when that interest is an interest in an associate or a joint venture that, in accordance with HKAS 28 *Investments in Associates and Joint Ventures*, is measured at fair value through profit or loss; or

(ii) when that interest is an interest in an unconsolidated structured entity.

## Significant judgements and assumptions

**7 An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:**

**(a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of HKFRS 10 *Consolidated Financial Statements*;**

**(b) that it has joint control of an arrangement or significant influence over another entity; and**

**(c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**

8 The significant judgements and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.

9 To comply with paragraph 7, an entity shall disclose, for example, significant judgements and assumptions made in determining that:

(a) it does not control another entity even though it holds more than half of the voting rights of the other entity.

(b) it controls another entity even though it holds less than half of the voting rights of the other entity.

(c) it is an agent or a principal (see paragraphs 58–72 of HKFRS 10).

(d) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.

(e) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

### Investment entity status

**9A When a parent determines that it is an investment entity in accordance with paragraph 27 of HKFRS 10, the investment entity shall disclose information about significant judgements and assumptions it has made in determining that it is an investment entity. If the investment entity does not have one or more of the typical characteristics of an investment entity (see paragraph 28 of HKFRS 10), it shall disclose its reasons for concluding that it is nevertheless an investment entity.**

9B When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:

(a) the total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;

(b) the total gain or loss, if any, calculated in accordance with paragraph B101 of HKFRS 10; and

(c) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

## Interests in subsidiaries

**10 An entity shall disclose information that enables users of its consolidated financial statements**

**(a) to understand:**

**(i) the composition of the group; and**

**(ii) the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12); and**

**(b) to evaluate:**

**(i) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 13);**

**(ii) the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 14–17);**

**(iii) the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control (paragraph 18); and**

**(iv) the consequences of losing control of a subsidiary during the reporting period (paragraph 19).**

11 When the financial statements of a subsidiary used in the preparation of consolidated financial statements are as of a date or for a period that is different from that of the consolidated financial statements (see paragraphs B92 and B93 of HKFRS 10), an entity shall disclose:

(a) the date of the end of the reporting period of the financial statements of that subsidiary; and

(b) the reason for using a different date or period.

## The interest that non-controlling interests have in the group's activities and cash flows

12 An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

(a) the name of the subsidiary.

(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary.

(c) the proportion of ownership interests held by non-controlling interests.

(d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.

(e) the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.

(f) accumulated non-controlling interests of the subsidiary at the end of the reporting period.

(g) summarised financial information about the subsidiary (see paragraph B10).

## The nature and extent of significant restrictions

13 An entity shall disclose:

(a) significant restrictions (eg statutory, contractual and regulatory restrictions) on its ability to access or use the assets and settle the liabilities of the group, such as:

(i) those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group.

(ii) guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group.

(b) the nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary).

(c) the carrying amounts in the consolidated financial statements of the assets and liabilities to which those restrictions apply.

## Nature of the risks associated with an entity's interests in consolidated structured entities

14 An entity shall disclose the terms of any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support).

15 If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a consolidated structured entity (eg purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

(a) the type and amount of support provided, including situations in which the parent or its subsidiaries assisted the structured entity in obtaining financial support; and

(b) the reasons for providing the support.

16 If during the reporting period a parent or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to a previously unconsolidated structured entity and that provision of support resulted in the entity controlling the structured entity, the entity shall disclose an explanation of the relevant factors in reaching that decision.

17 An entity shall disclose any current intentions to provide financial or other support to a consolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

## Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control

18 An entity shall present a schedule that shows the effects on the equity attributable to owners of the parent of any changes in its ownership interest in a subsidiary that do not result in a loss of control.

## Consequences of losing control of a subsidiary during the reporting period

19 An entity shall disclose the gain or loss, if any, calculated in accordance with paragraph 25 of HKFRS 10, and:

(a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) the line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

## Interests in unconsolidated subsidiaries (investment entities)

19A An investment entity that, in accordance with HKFRS 10, is required to apply the exception to consolidation and instead account for its investment in a subsidiary at fair value through profit or loss shall disclose that fact.

19B For each unconsolidated subsidiary, an investment entity shall disclose:

(a) the subsidiary's name;

(b) the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary; and

(c) the proportion of ownership interest held by the investment entity and, if different, the proportion of voting rights held.

19C If an investment entity is the parent of another investment entity, the parent shall also provide the disclosures in 19B(a)–(c) for investments that are controlled by its investment entity subsidiary. The disclosure may be provided by including, in the financial statements of the parent, the financial statements of the subsidiary (or subsidiaries) that contain the above information.

19D An investment entity shall disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of an unconsolidated subsidiary to transfer funds to the investment entity in the form of cash dividends or to repay loans or advances made to the unconsolidated subsidiary by the investment entity; and

(b) any current commitments or intentions to provide financial or other support to an unconsolidated subsidiary, including commitments or intentions to assist the subsidiary in obtaining financial support.

19E If, during the reporting period, an investment entity or any of its subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated subsidiary (eg purchasing assets of, or instruments issued by, the subsidiary or assisting the subsidiary in obtaining financial support), the entity shall disclose:

(a) the type and amount of support provided to each unconsolidated subsidiary; and

(b) the reasons for providing the support.

19F An investment entity shall disclose the terms of any contractual arrangements that could require the entity or its unconsolidated subsidiaries to provide financial support to an unconsolidated, controlled, structured entity, including events or circumstances that could expose the reporting entity to a loss (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or to provide financial support).

19G If during the reporting period an investment entity or any of its unconsolidated subsidiaries has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated, structured entity that the investment entity did not control, and if that provision of support resulted in the investment entity controlling the structured entity, the investment entity shall disclose an explanation of the relevant factors in reaching the decision to provide that support.

## Interests in joint arrangements and associates

**20 An entity shall disclose information that enables users of its financial statements to evaluate:**

**(a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and**

**(b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).**

### Nature, extent and financial effects of an entity's interests in joint arrangements and associates

21 An entity shall disclose:

(a) for each joint arrangement and associate that is material to the reporting entity:

(i) the name of the joint arrangement or associate.

(ii) the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities).

(iii) the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate.

(iv) the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

(b) for each joint venture and associate that is material to the reporting entity:

(i) whether the investment in the joint venture or associate is measured using the equity method or at fair value.

(ii) summarised financial information about the joint venture or associate as specified in paragraphs B12 and B13.

(iii) if the joint venture or associate is accounted for using the equity method, the fair value of its investment in the joint venture or associate, if there is a quoted market price for the investment.

(c) financial information as specified in paragraph B16 about the entity's investments in joint ventures and associates that are not individually material:

(i) in aggregate for all individually immaterial joint ventures and, separately,

(ii) in aggregate for all individually immaterial associates.

21A An investment entity need not provide the disclosures required by paragraphs 21(b)–21(c).

22 An entity shall also disclose:

(a) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture or an associate) on the ability of joint ventures or associates to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity.

(b) when the financial statements of a joint venture or associate used in applying the equity method are as of a date or for a period that is different from that of the entity:

(i) the date of the end of the reporting period of the financial statements of that joint venture or associate; and

(ii) the reason for using a different date or period.

(c) the unrecognised share of losses of a joint venture or associate, both for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture or associate when applying the equity method.

### Risks associated with an entity's interests in joint ventures and associates

23 An entity shall disclose:

(a) commitments that it has relating to its joint ventures separately from the amount of other commitments as specified in paragraphs B18–B20.

(b) in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, unless the probability of loss is remote, contingent liabilities incurred relating to its interests in joint ventures or associates (including its share of contingent liabilities incurred jointly with other investors with joint control of, or significant influence over, the joint ventures or associates), separately from the amount of other contingent liabilities.

## Interests in unconsolidated structured entities

**24 An entity shall disclose information that enables users of its financial statements:**

**(a) to understand the nature and extent of its interests in unconsolidated structured entities (paragraphs 26–28); and**

**(b) to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities (paragraphs 29–31).**

25 The information required by paragraph 24(b) includes information about an entity's exposure to risk from involvement that it had with unconsolidated structured entities in previous periods (eg sponsoring the structured entity), even if the entity no longer has any contractual involvement with the structured entity at the reporting date.

25A An investment entity need not provide the disclosures required by paragraph 24 for an unconsolidated structured entity that it controls and for which it presents the disclosures required by paragraphs 19A–19G.

## Nature of interests

26 An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

27 If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by paragraph 29 (eg because it does not have an interest in the entity at the reporting date), the entity shall disclose:

(a) how it has determined which structured entities it has sponsored;

(b) *income from those structured entities* during the reporting period, including a description of the types of income presented; and

(c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

28 An entity shall present the information in paragraph 27(b) and (c) in tabular format, unless another format is more appropriate, and classify its sponsoring activities into relevant categories (see paragraphs B2–B6).

## Nature of risks

29 An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

(a) the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.

(b) the line items in the statement of financial position in which those assets and liabilities are recognised.

(c) the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.

(d) a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

30 If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:

(a) the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and

(b) the reasons for providing the support.

31 An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support.

# Appendix A
# Defined terms

*This appendix is an integral part of the HKFRS.*

**income from a structured entity**

For the purpose of this HKFRS, income from a **structured entity** includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.

**interest in another entity**

For the purpose of this HKFRS, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

Paragraphs B7–B9 provide further information about interests in other entities.

Paragraphs B55–B57 of HKFRS 10 explain variability of returns.

**structured entity**

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Paragraphs B22–B24 provide further information about structured entities.

The following terms are defined in HKAS 27 (as amended in 2011), HKAS 28 (as amended in 2011), HKFRS 10 and HKFRS 11 *Joint Arrangements* and are used in this HKFRS with the meanings specified in those HKFRSs:

- associate
- consolidated financial statements
- control of an entity
- equity method
- group
- investment entity
- joint arrangement

- joint control
- joint operation
- joint venture
- non-controlling interest
- parent
- protective rights
- relevant activities
- separate financial statements
- separate vehicle
- significant influence
- subsidiary.

# Appendix B
# Application guidance

*This appendix is an integral part of the HKFRS. It describes the application of paragraphs 1–31 and has the same authority as the other parts of the HKFRS.*

B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying HKFRS 12.

## Aggregation (paragraph 4)

B2 An entity shall decide, in the light of its circumstances, how much detail it provides to satisfy the information needs of users, how much emphasis it places on different aspects of the requirements and how it aggregates the information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

B3 An entity may aggregate the disclosures required by this HKFRS for interests in similar entities if aggregation is consistent with the disclosure objective and the requirement in paragraph B4, and does not obscure the information provided. An entity shall disclose how it has aggregated its interests in similar entities.

B4 An entity shall present information separately for interests in:

(a) subsidiaries;

(b) joint ventures;

(c) joint operations;

(d) associates; and

(e) unconsolidated structured entities.

B5 In determining whether to aggregate information, an entity shall consider quantitative and qualitative information about the different risk and return characteristics of each entity it is considering for aggregation and the significance of each such entity to the reporting entity. The entity shall present the disclosures in a manner that clearly explains to users of financial statements the nature and extent of its interests in those other entities.

B6 Examples of aggregation levels within the classes of entities set out in paragraph B4 that might be appropriate are:

(a) nature of activities (eg a research and development entity, a revolving credit card securitisation entity).

(b) industry classification.

(c) geography (eg country or region).

## Interests in other entities

B7 An interest in another entity refers to contractual and non-contractual involvement that exposes the reporting entity to variability of returns from the performance of the other entity. Consideration of the purpose and design of the other entity may help the reporting entity when assessing whether it has an interest in that entity and, therefore, whether it is required to provide the disclosures in this HKFRS. That assessment shall include consideration of the risks that the other entity was designed to create and the risks the other entity was designed to pass on to the reporting entity and other parties.

B8 A reporting entity is typically exposed to variability of returns from the performance of another entity by holding instruments (such as equity or debt instruments issued by the other entity) or having another involvement that absorbs variability. For example, assume a structured entity holds a loan portfolio. The structured entity obtains a credit default swap from another entity (the reporting entity) to protect itself from the default of interest and principal payments on the loans. The reporting entity has involvement that exposes it to variability of returns from the performance of the structured entity because the credit default swap absorbs variability of returns of the structured entity.

B9 Some instruments are designed to transfer risk from a reporting entity to another entity. Such instruments create variability of returns for the other entity but do not typically expose the reporting entity to variability of returns from the performance of the other entity. For example, assume a structured entity is established to provide investment opportunities for investors who wish to have exposure to entity Z's credit risk (entity Z is unrelated to any party involved in the arrangement). The structured entity obtains funding by issuing to those investors notes that are linked to entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of risk-free financial assets. The structured entity obtains exposure to entity Z's credit risk by entering into a credit default swap (CDS) with a swap counterparty. The CDS passes entity Z's credit risk to the structured entity in return for a fee paid by the swap counterparty. The investors in the structured entity receive a higher return that reflects both the structured entity's return from its asset portfolio and the CDS fee. The swap counterparty does not have involvement with the structured entity that exposes it to variability of returns from the performance of the structured entity because the CDS transfers variability to the structured entity, rather than absorbing variability of returns of the structured entity.

## Summarised financial information for subsidiaries, joint ventures and associates (paragraphs 12 and 21)

B10 For each subsidiary that has non-controlling interests that are material to the reporting entity, an entity shall disclose:

(a) dividends paid to non-controlling interests.

(b) summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. That information might include but is not limited to, for example, current assets, non-current assets, current liabilities, non-current liabilities, revenue, profit or loss and total comprehensive income.

B11 The summarised financial information required by paragraph B10(b) shall be the amounts before inter-company eliminations.

B12 For each joint venture and associate that is material to the reporting entity, an entity shall disclose:

(a) dividends received from the joint venture or associate.

(b) summarised financial information for the joint venture or associate (see paragraphs B14 and B15) including, but not necessarily limited to:

(i) current assets.

(ii) non-current assets.

(iii) current liabilities.

(iv) non-current liabilities.

(v) revenue.

(vi) profit or loss from continuing operations.

(vii) post-tax profit or loss from discontinued operations.

(viii) other comprehensive income.

(ix) total comprehensive income.

B13 In addition to the summarised financial information required by paragraph B12, an entity shall disclose for each joint venture that is material to the reporting entity the amount of:

(a) cash and cash equivalents included in paragraph B12(b)(i).

(b) current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iii).

(c) non-current financial liabilities (excluding trade and other payables and provisions) included in paragraph B12(b)(iv).

(d) depreciation and amortisation.

(e) interest income.

(f) interest expense.

(g) income tax expense or income.

B14 The summarised financial information presented in accordance with paragraphs B12 and B13 shall be the amounts included in the HKFRS financial statements of the joint venture or associate (and not the entity's share of those amounts). If the entity accounts for its interest in the joint venture or associate using the equity method:

(a) the amounts included in the HKFRS financial statements of the joint venture or associate shall be adjusted to reflect adjustments made by the entity when using

the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

(b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

B15 An entity may present the summarised financial information required by paragraphs B12 and B13 on the basis of the joint venture's or associate's financial statements if:

(a) the entity measures its interest in the joint venture or associate at fair value in accordance with HKAS 28 (as amended in 2011); and

(b) the joint venture or associate does not prepare HKFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarised financial information has been prepared.

B16 An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

(a) profit or loss from continuing operations.

(b) post-tax profit or loss from discontinued operations.

(c) other comprehensive income.

(d) total comprehensive income.

An entity provides the disclosures separately for joint ventures and associates.

B17 When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with paragraphs B10–B16.

## Commitments for joint ventures (paragraph 23(a))

B18 An entity shall disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

B19 Unrecognised commitments that may give rise to a future outflow of cash or other resources include:

(a) unrecognised commitments to contribute funding or resources as a result of, for example:

(i) the constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).

(ii) capital-intensive projects undertaken by a joint venture.

(iii) unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture.

(iv) unrecognised commitments to provide loans or other financial support to a joint venture.

(v) unrecognised commitments to contribute resources to a joint venture, such as assets or services.

(vi) other non-cancellable unrecognised commitments relating to a joint venture.

(b) unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.

B20 The requirements and examples in paragraphs B18 and B19 illustrate some of the types of disclosure required by paragraph 18 of HKAS 24 *Related Party Disclosures*.

## Interests in unconsolidated structured entities (paragraphs 24–31)

### Structured entities

B21 A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

B22 A structured entity often has some or all of the following features or attributes:

(a) restricted activities.

(b) a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.

(c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

(d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

B23 Examples of entities that are regarded as structured entities include, but are not limited to:

(a) securitisation vehicles.

(b) asset-backed financings.

(c) some investment funds.

B24 An entity that is controlled by voting rights is not a structured entity simply because, for example, it receives funding from third parties following a restructuring.

### Nature of risks from interests in unconsolidated structured entities (paragraphs 29–31)

B25 In addition to the information required by paragraphs 29–31, an entity shall disclose additional information that is necessary to meet the disclosure objective in paragraph 24(b).

B26 Examples of additional information that, depending on the circumstances, might be relevant to an assessment of the risks to which an entity is exposed when it has an interest in an unconsolidated structured entity are:

(a) the terms of an arrangement that could require the entity to provide financial support to an unconsolidated structured entity (eg liquidity arrangements or credit rating triggers associated with obligations to purchase assets of the structured entity or provide financial support), including:

  (i) a description of events or circumstances that could expose the reporting entity to a loss.

  (ii) whether there are any terms that would limit the obligation.

  (iii) whether there are any other parties that provide financial support and, if so, how the reporting entity's obligation ranks with those of other parties.

(b) losses incurred by the entity during the reporting period relating to its interests in unconsolidated structured entities.

(c) the types of income the entity received during the reporting period from its interests in unconsolidated structured entities.

(d) whether the entity is required to absorb losses of an unconsolidated structured entity before other parties, the maximum limit of such losses for the entity, and (if relevant) the ranking and amounts of potential losses borne by parties whose interests rank lower than the entity's interest in the unconsolidated structured entity.

(e) information about any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the entity's interests in unconsolidated structured entities.

(f) any difficulties an unconsolidated structured entity has experienced in financing its activities during the reporting period.

(g) in relation to the funding of an unconsolidated structured entity, the forms of funding (eg commercial paper or medium-term notes) and their weighted-average life. That information might include maturity analyses of the assets and funding of an unconsolidated structured entity if the structured entity has longer-term assets funded by shorter-term funding.

# Appendix C
# Effective date and transition

*This appendix is an integral part of the HKFRS and has the same authority as the other parts of the HKFRS.*

## Effective date and transition

C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 12 for an earlier period, it shall apply those amendments for that earlier period.

C1B *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.

C2 An entity is encouraged to provide information required by this HKFRS earlier than annual periods beginning on or after 1 January 2013. Providing some of the disclosures required by this HKFRS does not compel the entity to comply with all the requirements of this HKFRS or to apply HKFRS 10, HKFRS 11, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) early.

C2A The disclosure requirements of this HKFRS need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which HKFRS 12 is applied.

C2B The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs B21–B26 of this HKFRS need not be applied for any period presented that begins before the first annual period for which HKFRS 12 is applied.

## References to HKFRS 9

C3 If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

# Appendix D
# Amendments to other HKFRSs

*This appendix sets out amendments to other HKFRSs that are a consequence of issuing HKFRS 12. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 12 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.*

*****

*The amendments contained in this appendix when this HKFRS was issued in 2011 have been incorporated into the relevant HKFRSs.*

# Appendix E
# Comparison with International Financial Reporting Standards

This comparison appendix, which was prepared in June 2011 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKFRS 12.

The International Financial Reporting Standard comparable with HKFRS 12 is IFRS 12 *Disclosure of Interests in Other Entities*.

There are no major textual differences between HKFRS 12 and IFRS 12.

HKFRS 12 BC
Revised ~~December 2012~~November 2014

*Basis for Conclusions on*
*Hong Kong Financial Reporting Standard 12*

# Disclosure of Interests in Other Entities

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

**COPYRIGHT**

© Copyright 2014 Hong Kong Institute of Certified Public Accountants

This Hong Kong Financial Reporting Standard contains IFRS Foundation copyright material. Reproduction within Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and inquiries concerning reproduction and rights for commercial purposes within Hong Kong should be addressed to the Director, Finance and Operation, Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

All rights in this material outside of Hong Kong are reserved by IFRS Foundation. Reproduction of Hong Kong Financial Reporting Standards outside of Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Hong Kong should be addressed to the IFRS Foundation at www.ifrs.org.

Further details of the copyright notice form IFRS Foundation is available at
http://app1.hkicpa.org.hk/ebook/copyright-notice.pdf

# Basis for Conclusions on IFRS 12 *Disclosure of Interests in Other Entities*

HKFRS 12 is based on IFRS 12 *Disclosure of Interests in Other Entities*. In approving HKFRS 12, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IFRS 12. Accordingly, there are no significant differences between HKFRS 12 and IFRS 12. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IFRS 12 referred to below generally correspond with those in HKFRS 12.

## CONTENTS


| | *from paragraph* |
|---|---|
| **INTRODUCTION** | **BC1** |
| **The structure of IFRS 12 and the Board's deliberations** | **BC9** |
| **SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS** | **BC14** |
| **INTERESTS IN SUBSIDIARIES** | **BC20** |
| **Composition of the group and non-controlling interests** | **BC21** |
| **Restrictions on assets and liabilities** | **BC30** |
| **Risks associated with an entity's interests in consolidated structured entities** | **BC34** |
| **Changes in ownership interests in subsidiaries** | **BC37** |
| **Loss of control** | **BC41** |
| **INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES** | **BC42** |
| **Nature, extent and financial effects of interests in joint arrangements and associates** | **BC44** |
| **Summarised financial information** | **BC47** |
| **Commitments** | **BC53** |
| **Contingent liabilities** | **BC57** |
| **Disclosure requirements for venture capital organisations, mutual funds, unit trusts or similar entities that have an interest in a joint venture or associate** | **BC59** |
| **Fair value of investments in joint ventures for which there are published price quotations** | **BC61** |
| **INVESTMENT ENTITIES** | **BC61A** |
| **INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES** | **BC62** |
| **The need for the disclosure requirements** | **BC62** |
| **The scope of the risk disclosures** | **BC78** |
| Interests in unconsolidated structured entities | BC78 |
| The definition of a structured entity | BC82 |
| **Nature of interest** | **BC86** |

**Nature of risks** **BC92**

The assets of structured entities BC96

Exposure to loss BC97

Providing financial support without having an obligation to do so BC102

Risks arising from previous involvement with unconsolidated structured entities BC107

Additional information that might be relevant to an assessment of risk BC111

**EFFECTIVE DATE AND TRANSITION** **BC115**

**SUMMARY OF MAIN CHANGES FROM ED 9 AND ED 10** **BC120**

**CONVERGENCE WITH US GAAP** **BC121**

**COST-BENEFIT CONSIDERATIONS** **BC123**

BC8 The Board decided to extend the scope of IFRS 12 to interests in joint operations. A joint operation is a joint arrangement that is not necessarily structured through an entity that is separate from the parties to the joint arrangement. Therefore, an interest in a joint operation does not necessarily represent an interest in another entity. The Board decided to include disclosure requirements for joint operations in IFRS 12 because it believes that the benefits of having all disclosure requirements for joint arrangements in one place outweighs the disadvantages of including disclosure requirements about interests in joint operations in a standard that otherwise deals with an entity's interests in other entities.

## The structure of IFRS 12 and the Board's deliberations

BC9 IFRS 12 replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31, except for the disclosure requirements that apply only when preparing separate financial statements, which are included in IAS 27 *Separate Financial Statements*.

BC10 Unless otherwise stated, any references in this Basis for Conclusions to:

(a) IAS 27 are to IAS 27 *Consolidated and Separate Financial Statements*.

(b) IAS 28 are to IAS 28 *Investments in Associates*.

(c) IAS 31 are to IAS 31 *Interests in Joint Ventures*.

BC11 In developing IFRS 12, the Board did not reconsider all the requirements that are included in the IFRS. The requirements in paragraphs 11, 18 and 19 relate to disclosures about some of the accounting requirements in IFRS 10 *Consolidated Financial Statements*, which were carried forward from IAS 27 to IFRS 10 without being reconsidered by the Board. Consequently, the Board did not reconsider the requirements in those paragraphs. In addition, the requirements in paragraph 22 relate to disclosures about the application of the equity method and restrictions on the ability of joint ventures and associates to transfer funds to the reporting entity. The Board did not reconsider the equity method as part of its joint ventures project. Consequently, and with the exception of its decision to align the requirements for joint ventures and associates as stated in paragraph BC6, the requirements in paragraph 22 were carried forward from IAS 28 without being reconsidered by the Board. Accordingly, when the Board approved IFRS 12 for issue, it brought forward from IAS 27 and IAS 28 without reconsideration the requirements now in paragraphs 11, 18, 19 and 22 of IFRS 12.

BC12 When revised in 2003, IAS 27 was accompanied by a Basis for Conclusions summarising the considerations of the Board, as constituted at the time, in reaching some of its conclusions in that standard. The Basis for Conclusions was subsequently updated to reflect amendments to the standard. For convenience, the Board has incorporated into its Basis for Conclusions on IFRS 12 material from the Basis for Conclusions on IAS 27 that discusses the requirements in paragraphs 18 and 19 that the Board has not reconsidered. That material is contained in paragraphs BC37–BC41. In those paragraphs cross-references to the IFRS have been updated accordingly and minor necessary editorial changes have been made.

BC13 As part of its consolidation project, the Board is examining how an investment entity accounts for its interests in subsidiaries, joint ventures and associates and what, if any, additional disclosures might be made about those interests. The Board expects to publish later in 2011 an exposure draft on investment entities.*

* *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. The amendments are discussed in paragraphs BC215-BC317 of IFRS 10 *Consolidated Financial Statements*, and the disclosure requirements are discussed in paragraphs BC61A-BC61H of this IFRS.

### Fair value of investments in joint ventures for which there are published price quotations

BC61 IAS 28 required an entity to disclose the fair value of investments in associates for which published price quotations were available. Such quotations might also be available for joint ventures. Consequently, the Board decided to align this disclosure requirement by requiring an entity to disclose the fair value of investments in joint ventures for which there are published price quotations.

## Investment entities

BC61A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) introduced a requirement for investment entities to measure their investments in particular subsidiaries at fair value through profit or loss instead of consolidating them. The Board also decided on specific disclosure requirements for investment entities.

BC61B In deciding on the appropriate disclosure requirements for investment entities, the Board noted that investment entities would be required to make the disclosures already contained in other Standards. In particular, the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* and IAS 24 *Related Party Disclosures* are likely to be relevant for users of investment entity financial statements.

BC61C Users told the Board that disclosures relating to the valuation methodology used for measuring fair value and the underlying inputs are essential to their analyses. This information is already required by IFRS 7 and by IFRS 13 when reporting investments at fair value through profit or loss or other comprehensive income in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. Accordingly, the Board decided that it was not necessary to propose any additional disclosure requirements relating to the fair value measurements made by investment entities.

BC61D In the Exposure Draft *Investment Entities* (the *Investment Entities* ED), the Board proposed that an investment entity would be required to meet a disclosure objective that addressed all of an investment entity's investing activities. The *Investment Entities* ED also gave a number of examples of ways in which an investment entity could meet that disclosure objective. Respondents generally supported the disclosure guidance. However, the Board noted that it was outside the scope of the Investment Entities project to require all investment entities to provide disclosures about their investing activities. Consequently, the Board decided to remove the disclosure objective and the examples on how to meet the objective from the final requirements. Because the Investment Entities project focuses on providing an exception to consolidation, the Board decided to limit additional disclosures to information about unconsolidated subsidiaries.

BC61E The Board also decided to require an investment entity to disclose the fact that it has applied the exception to consolidation, noting that such a disclosure would represent useful information. Moreover, the Board decided to require an investment entity to disclose when it does not display one or more of the typical characteristics of an investment entity, along with a justification of why it still meets the definition of an investment entity.

BC61F The Board considered whether all of the disclosures in this IFRS should apply to the investments in unconsolidated subsidiaries, associates and joint ventures of investment entities. The Board decided that some (eg summarised financial information and information about non-controlling interests) are not applicable to investment entities and are inconsistent with the assertion that fair value information is the most relevant information for investment entities. Consequently, the Board decided to specify the IFRS 12 requirements applicable to the unconsolidated subsidiaries, associates and joint ventures held by investment entities.

BC61G Consistently with the principles in this IFRS, the Board decided to require an investment entity to disclose when any explicit or implicit financial support has been provided to entities that it controls. The Board concluded that it would help users of financial statements to understand an investment entity's exposure to risk.

BC61H The Board decided that an investment entity should disclose the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of investees to transfer funds to the investment entity in the form of cash dividends, or repayment of loans or advances. The Board considered this requirement to be useful for investors because such restrictions could potentially affect distributions to investors of the investment entity's returns from investments.

## Interests in unconsolidated structured entities

### The need for the disclosure requirements

BC62 IAS 27 did not require disclosures relating to interests in unconsolidated entities. The Board was asked by users of financial statements, regulators and others (such as the G20 leaders and the Financial Stability Board) to improve the disclosure requirements for what are often described as 'off balance sheet' activities. Unconsolidated structured entities, particularly securitisation vehicles and asset-backed financings, were identified as forming part of such activities.

BC63 The Board concluded that when an entity has an interest in an unconsolidated structured entity, users of financial statements would benefit from information about the risks to which the entity is exposed from that interest. Such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.

BC64 As proposed in ED 10, IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity's interest in unconsolidated structured entities.

BC65 Virtually all respondents to ED 10 agreed that there is a need for improved disclosures about an entity's exposure to risk from 'off balance sheet' activities. However, respondents expressed differing views on the nature and amount of information that should be disclosed. Some, including users of financial statements, supported the approach proposed in ED 10 to require disclosure of risks arising from interests in unconsolidated structured entities.

BC66 Other respondents pointed out that an entity can be exposed to the same risks from having interests in all types of entities. Therefore, they questioned why an entity should be required to provide particular information about its exposure to risk from its interests in unconsolidated structured entities, but not with other unconsolidated entities.

BC67 Some respondents were also concerned that the proposals would duplicate the risk disclosures in IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 requires an entity to disclose qualitative and quantitative information about risks arising from financial instruments that the entity holds. Those respondents expressed the view that ED 10 proposed disclosures about the counterparties of financial instruments to which the disclosure requirements in IFRS 7 already apply.

BC68 In addition, some respondents disagreed with the proposals because they suspected that the Board had included the proposed disclosures as a 'safety net' because it was concerned that some structured entities might fail the consolidation criteria in ED 10, even though, in their view, consolidation would be appropriate.

HKFRS 13 BC
~~Issued June 2011~~Revised November 2014

*Basis for Conclusions on*
*Hong Kong Financial Reporting Standard 13*

# Fair Value Measurement

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

## COPYRIGHT

© Copyright 2014 Hong Kong Institute of Certified Public Accountants

This Hong Kong Financial Reporting Standard contains IFRS Foundation copyright material. Reproduction within Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and inquiries concerning reproduction and rights for commercial purposes within Hong Kong should be addressed to the Director, Finance and Operation, Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

All rights in this material outside of Hong Kong are reserved by IFRS Foundation. Reproduction of Hong Kong Financial Reporting Standards outside of Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Hong Kong should be addressed to the IFRS Foundation at www.ifrs.org.

Further details of the copyright notice form IFRS Foundation is available at http://app1.hkicpa.org.hk/ebook/copyright-notice.pdf

(c) There are differences in spelling—For example, IFRS 13 refers to *labour costs* and Topic 820 refers to *labor costs*.

(d) There are differences in whether references are to a particular jurisdiction or are generic—For example, IFRS 13 refers to *risk-free government securities* and Topic 820 refers to *US Treasury securities*.

The boards concluded that those differences will not result in inconsistent interpretations in practice by entities applying IFRSs or US GAAP.

BC238 In addition, IFRS 13 and Topic 820 have the following differences:

(a) There are different accounting requirements in IFRSs and US GAAP for measuring the fair value of investments in investment companies. Topic 946 *Financial Services—Investment Companies* in US GAAP requires an investment company to recognise its underlying investments at fair value at each reporting period. Topic 820 provides a practical expedient that permits an entity with an investment in an investment company to use as a measure of fair value in specific circumstances the reported net asset value without adjustment. IFRS 10 *Consolidated Financial Statements* requires an investment company to consolidate its controlled underlying investments. Because IFRSs do not have accounting requirements that are specific to investment companies, the IASB decided that it would be difficult to identify when such a practical expedient could be applied given the different practices for calculating net asset values in jurisdictions around the world. For example, investment companies may report in accordance with national GAAP, which may have recognition and measurement requirements that differ from those in IFRSs (ie the underlying investments might not be measured at fair value, or they might be measured at fair value in accordance with national GAAP, not IFRSs). The boards are reviewing the accounting for investment companies as part of a separate project.*

(b) There are different requirements for measuring the fair value of a financial liability with a demand feature. In US GAAP, Topic 825 *Financial Instruments* and Topic 942 *Financial Services—Depository and Lending* describe the fair value measurement of a deposit liability as the amount payable on demand at the reporting date. In IFRSs, IFRS 13 states that the fair value measurement of a financial liability with a demand feature (eg demand deposits) cannot be less than the present value of the amount payable on demand. That requirement in IFRS 13 was relocated unchanged from IAS 39 and IFRS 9 as a consequence of the IASB's fair value measurement project.

(c) There are different disclosure requirements in IFRSs and US GAAP. For example:

(i) Because IFRSs generally do not allow net presentation for derivatives, the amounts disclosed for fair value measurements categorised within Level 3 of the fair value hierarchy might differ. The boards are reviewing the presentation requirements for offsetting financial assets and financial liabilities in their joint project on the accounting for financial instruments.

* In October 2012 the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which required investment entities, as defined in IFRS 10 *Consolidated Financial Statements*, to measure their investments in subsidiaries, other than those providing investment-related services or activities, at fair value through profit or loss. In their redeliberations on the Investment Entities project, the Board considered providing a net asset value practical expedient. However, the Board decided against this because there are different calculation methods in different jurisdictions and it is outside the scope of the Investment Entities project to provide fair value measurement guidance for investments in investment entities.

(ii) IFRSs require a quantitative sensitivity analysis for financial instruments that are measured at fair value and categorised within Level 3 of the fair value hierarchy (that disclosure was previously in IFRS 7). The boards will analyse the feasibility of incorporating information about interrelationships between unobservable inputs into a quantitative measurement uncertainty analysis disclosure. After completing that analysis, the boards will decide whether to require such a disclosure.

(iii) Topic 820 has different disclosure requirements for non-public entities. The FASB concluded that some of the disclosures should not be required for non-public entities because of the characteristics of the users of the financial statements of those entities. The FASB considered the ability of those users to access information about the financial position of the entity and the relevance to those users of the information that would be provided by the requirements in the disclosure amendments. In contrast, the IASB recently completed a project on the accounting for small and medium-sized entities. As a result, the *IFRS for Small and Medium-Sized Entities* addresses the accounting for entities that do not have public accountability, and the disclosures about their fair value measurements.

## Cost-benefit considerations

BC239 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. To meet that objective, the IASB seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new standard might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

BC240 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the IASB considers the following:

(a) the costs incurred by preparers of financial statements;

(b) the costs incurred by users of financial statements when information is not available;

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information; and

(d) the benefit of better economic decision-making as a result of improved financial reporting.

BC241 IFRS 13 defines fair value, provides a framework for measuring fair value and requires disclosures about fair value measurements. A clear definition of fair value, together with a framework for measuring fair value that eliminates inconsistencies across IFRSs that have contributed to diversity in practice, should improve consistency in application, thereby enhancing the comparability of information reported in financial statements.

BC242 The disclosures about fair value measurements would increase transparency and improve the quality of information provided to users of financial statements. In developing the disclosure requirements in IFRS 13, the IASB obtained input from users and preparers of financial statements and other interested parties to enable the IASB to assess whether the disclosures could be provided within reasonable cost-benefit constraints.

Effective upon issue

# Glossary of Terms Relating to Hong Kong Financial Reporting Standards

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

## COPYRIGHT

© Copyright 2014 Hong Kong Institute of Certified Public Accountants

This Hong Kong Financial Reporting Standard contains IFRS Foundation copyright material. Reproduction within Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and inquiries concerning reproduction and rights for commercial purposes within Hong Kong should be addressed to the Director, Finance and Operation, Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

All rights in this material outside of Hong Kong are reserved by IFRS Foundation. Reproduction of Hong Kong Financial Reporting Standards outside of Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Hong Kong should be addressed to the IFRS Foundation at www.ifrs.org.

Further details of the copyright notice form IFRS Foundation is available at
http://app1.hkicpa.org.hk/ebook/copyright-notice.pdf

# 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. References are by Standard and paragraph number.

The glossary also includes extracts from the *Conceptual Framework for Financial Reporting*. References to the *Conceptual Framework* are preceded by F.

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

| Term | Definition | Reference |
|---|---|---|
| **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 |
| **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 transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. | HKFRS 13.A |
| **actuarial gains and losses** | The changes in the present value of the defined benefit obligation resulting from:<br>(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and<br>(b) the effects of changes in actuarial assumptions. | HKAS 19.8 (2011) |
| **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 |
| **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 |

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

| Term | Definition | Reference |
|---|---|---|
| **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:<br>(a) controlled by an entity as a result of past events; and<br>(b) from which future economic benefits are expected to flow to the entity. | HKAS 38.8, (F.4.4(a)) |
| **asset ceiling** | The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. | HKAS 19.8 (2011) |
| **assets held by a long-term employee benefit fund** | Assets (other than non-transferable financial instruments issued by the reporting entity) that:<br>(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<br>(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:<br>(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<br>(ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid. | HKAS 19.8 (2011) |
| **associate** | An entity, over which the investor has significant influence. | HKAS 28.3 (2011) |
| **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 |

| Term | Definition | Reference |
|---|---|---|
| **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 |
| **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 |

**close members of the family of a person**

Those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or 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

| Term | Definition | Reference |
|---|---|---|
| **consolidated financial statements** | The financial statements of a group in which assets, liabilities, equity, income, expenses and cash flow of the parent and its subsidiaries are presented as those of a single economic entity. | HKAS 27.4 (2011), HKAS 28.3 (2011), HKFRS 10.A |
| **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:<br>(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<br>(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<br>(b) a present obligation that arises from past events but is not recognised because:<br>(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or<br>(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 |
| **control of an investee** | An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. | HKFRS 10.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 |
| **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 approach** | A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). | HKFRS 13.A |
| **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 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:<br>(a) it expects to realise the asset or intends to sell or consume it in its normal operating cycle;<br>(b) it holds the asset primarily for the purpose of trading;<br>(c) it expects to realise the asset within twelve months after the reporting period; or<br>(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.<br>An entity shall classify all other assets as non-current. | HKAS 1.66, (HKFRS 5.A) |
| **current service cost** | The increase in the present value of the defined benefit obligation resulting from employee service in the current period. | HKAS 19.8 (2011) |
| **current tax** | The amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. | HKAS 12.5 |
| **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 |
| **decision maker** | An entity with decision-marking rights that is either a principal or an agent for other parties. | HKFRS 10.A |
| **deductible temporary differences** | Temporary differences between the carrying amount of an asset or liability in the statement of financial position 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:<br>(a) deductible temporary differences;<br>(b) the carryforward of unused tax losses; and<br>(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 |

| Term | Definition | Reference |
|---|---|---|
| **deficit or surplus (of defined benefit liability (asset))** | The deficit or surplus is:<br>(a) the present value of the defined benefit obligation less<br>(b) the fair value of the plan assets (if any). | HKAS 19.8 (2011) |
| **defined benefit plans** | Post-employment benefit plans other than defined contribution plans. | HKAS 19.8 (2011) |
| **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 19.8 (2011) |
| **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 |
| **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 |
| **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 |
| **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 |
| **direct insurance contract** | An insurance contract that is not a reinsurance contract. | HKFRS 4.A |

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

**discontinued operation** — A component of an entity that either has been disposed of or is classified as held for sale and: — HKFRS 5.A

(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.

**discretionary participation feature** — A contractual right to receive, as a supplement to guaranteed benefits, additional benefits: — HKFRS 4.A

(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.

**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

**economic life** — Either: — HKAS 17.4

(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.

**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

| Term | Definition | Reference |
|---|---|---|
| **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 |
| **employee benefits** | All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. | HKAS 19.8 (2011) |
| **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 |
| **entry price** | The price paid to acquire an asset or received to assume a liability in an exchange transaction. | HKFRS 13.A |
| **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 |

| Term | Definition | Reference |
|---|---|---|
| **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 the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. | HKAS 28.3 (2011) |
| **equity-settled share-based payment transaction** | A share-based payment transaction in which the entity<br>(a) receives goods or services as consideration for its own equity instruments (including shares or share options), or<br>(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:<br>(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and<br>(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 |
| **exit price** | The price that would be received to sell an asset of paid to transfer a liability. | HKFRS 13.A |
| **expected cash flows** | The probability-weighted average (ie mean of the distribution) of possible future cash flows. | HKFRS 13.A |
| **experience adjustments** | The effects of differences between previous actuarial assumptions and what has actually occurred. | HKAS 19.8 (2011) |
| **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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. | HKAS 2.6, (HKAS 16.6), HKAS 17.8, HKAS 18.7, (HKAS 19.7), (HKAS 20.3), HKAS 21.8, HKAS 32.11, (HKAS 36.6), (HKAS 38.8), (HKAS 40.5), HKAS 41.8, HKFRS 1.A, HKFRS 3.A, HKFRS 4.A, HKFRS 5.A, HKFRS 13.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 |
| **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:<br>(a) cash;<br>(b) an equity instrument of another entity;<br>(c) a contractual right:<br>(i) to receive cash or another financial asset from another entity; or<br>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or<br>(d) a contract that will or may be settled in the entity's own equity instruments and is:<br>(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<br>(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 contracts for the future receipt or delivery of the entity's own equity instruments. | HKAS 32.11 |
| **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. | 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:<br>(a) a contractual obligation:<br>(i) to deliver cash or another financial asset to another entity; or<br>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or<br>(b) a contract that will or may be settled in the entity's own equity instruments and is:<br>(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<br>(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, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes 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.<br>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 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 |
| **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 |
| **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 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 |
| **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 |

| | | |
|---|---|---|
| **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:<br>(a) the minimum lease payments receivable by the lessor under a finance lease, and<br>(b) any unguaranteed residual value accruing to the lessor. | HKAS 17.4 |
| **group** | A parent and all its subsidiaries. | HKAS 21.8 |

© Copyright

| Term | Definition | Source |
|---|---|---|
| **group** | A parent and its subsidiaries. | HKFRS 10.A |
| **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<br>(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 |
| **highest and best use** | The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used. | HKFRS 13.A |

| Term | Definition | Reference |
|---|---|---|
| **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 |
| **Hong Kong Financial Reporting Standards (HKFRSs)** | Standards and Interpretations adopted by the Hong Kong Institute of Certified Public Accountants (HKICPA). They comprise:<br>(a) Hong Kong Financial Reporting Standards;<br>(b) Hong Kong Accounting Standards;<br>(c) HK(IFRIC) Interpretations; and<br>(d) HK(SIC) Interpretations. | HKAS 1.7,<br>HKAS 8.5,<br>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.<br>Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:<br>(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.<br>(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.<br>(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.<br>(d) interest rates, wages and prices are linked to a price index.<br>(e) the cumulative inflation rate over three years is approaching, or exceeds, 100%. | HKAS 29.2–3 |

| Term | Definition | Reference |
|---|---|---|
| **identifiable** | An asset is identifiable if it either:<br>(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<br>(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) |
| **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 approach** | Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (eg discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. | HKFRS 13.A |
| **income from a structured entity** | For the purpose of HKFRS 12, income from a structured entity includes, but is not limited to, recurring and non-recurring fees, interest, dividends, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity. | HKFRS 12.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 |
| **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 |

| Term | Definition | Source |
|---|---|---|
| **inputs** | The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:<br>(a) the risk inherent in a particular valuation technique used to measure fair value (such as pricing model); and<br>(b) the risk inherent in the inputs to the valuation technique.<br>Inputs may be observable or unobservable. | HKFRS 13.A |
| **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,<br>HKFRS 3.A |
| **interest in another entity** | For the purpose of HKFRS 12, an interest in another entity refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.<br>Paragraphs B7-B9 of HKFRS 12 provide further information about interests in other entities.<br>Paragraphs B55-B57 of HKFRS 10 explain variability of returns. | HKFRS 12.A |

| Term | Definition | Reference |
|---|---|---|
| **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 |
| **inventories** | Assets:<br>(a) held for sale in the ordinary course of business;<br>(b) in the process of production for such sale; or<br>(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.<br>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 |

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

| Term | Definition | Reference |
|---|---|---|
| **investment entity** | An entity that:<br>(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;<br>(b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and<br>(c) measures and evaluates the performance of substantially all of its investments on a fair value basis. | HKFRS 10.A |
| **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:<br>(a) use in the production or supply of goods or services or for administrative purposes; or<br>(b) sale in the ordinary course of business. | HKAS 40.5 |
| **joint arrangement** | An arrangement of which two or more parties have joint control. | HKAS 28.3 (2011), HKFRS 11.A |
| **joint control** | The contractually agreed sharing of control over an economic activity. | HKAS 24.9 |
| **joint control** | The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. | HKAS 28.3 (2011), HKFRS 11.A |
| **joint operation** | A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. | HKFRS 11.A |
| **joint operator** | A party to a joint operation that has joint control of that joint operation. | HKFRS 11.A |
| **joint venture** | A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. | HKAS 28.3 (2011), HKFRS 11.A |
| **joint venturer** | A party to a joint venture that has joint control of the joint venture. | HKAS 28.3 (2011), HKFRS 11.A |
| **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:<br>(a) a contract (through its explicit or implicit terms);<br>(b) legislation; or<br>(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 |
| **Level 1 inputs** | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | HKFRS 13.A |
| **Level 2 inputs** | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. | HKFRS 13.A |
| **Level 3 inputs** | Unobservable inputs for the asset or liability. | HKFRS 13.A |
| **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.4.4(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 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 |

| | | |
|---|---|---|
| **market approach** | A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business. | HKFRS 13.A |
| **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-corroborated inputs** | Inputs that are derived principally from or corroborated by observable market data by correlation or other means. | HKFRS 13.A |
| **market participant** | Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:<br>(a) They are independent of each other, ie they are not related parties as defined in HKAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.<br>(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.<br>(c) They are able to enter into a transaction for the asset or liability.<br>(d) They are willing to enter into a transaction for the asset of liability, ie they are motivated but not forced or otherwise compelled to do so. | HKFRS 13.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 |
| **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,<br>HKAS 8.5 |

| | | |
|---|---|---|
| **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.4.54 |
| **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:<br>(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or<br>(b) for a lessor, any residual value guaranteed to the lessor by:<br>(i) the lessee;<br>(ii) a party related to the lessee; or<br>(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 |
| **most advantageous market** | The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs. | HKFRS 13.A |

| Term | Definition | Reference |
|---|---|---|
| **multi-employer (benefit) plans** | Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:<br>(a) pool the assets contributed by various entities that are not under common control; and<br>(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 19.8 (2011) |
| **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 defined benefit liability (asset)** | The deficit or surplus, adjusted for any effects of limiting a net defined benefit asset to the asset ceiling. | HKAS 19.8 (2011) |
| **net interest on the net defined benefit liability (asset)** | The change during the period in the net defined benefit liability (asset) that arises from the passage of time | HKAS 19.8 (2011) |
| **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.<br>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 |
| **non-adjusting events after the reporting period** | See 'events after the reporting period' | |

| Term | Definition | Reference |
|---|---|---|
| **non-cancellable lease** | A lease that is cancellable only:<br>(a) upon the occurrence of some remote contingency;<br>(b) with the permission of the lessor;<br>(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or<br>(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. | HKFRS 3.A, HKFRS 10.A |
| **non-current asset** | An asset that does not meet the definition of a current asset. | HKFRS 5.A |
| **non-performance risk** | The risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk. | HKFRS 13.A |
| **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 |
| **observable inputs** | Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. | HKFRS 13.A |
| **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 |
| **operating lease** | A lease other than a finance lease. | HKAS 17.4 |

| Term | Definition | Reference |
|---|---|---|
| **operating segment** | An operating segment is a component of an entity:<br>(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),<br>(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<br>(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 |
| **orderly transaction** | A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale). | HKFRS 13.A |
| **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 |
| **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** | All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits. | HKAS 19.8 (2011) |
| **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 controls one or more entities. | HKFRS 10.A |
| **participants** | The members of a retirement benefit plan and others who are entitled to benefits under the plan. | HKAS 26.8 |
| **party to a joint arrangement** | An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement. | HKFRS 11.A |
| **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 from a plan amendment (the introduction or withdrawal of, or change to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan). | HKAS 19.8 (2011) |
| **plan assets (of an employee benefit plan)** | (a) Assets held by a long-term employee benefit fund; and<br>(b) qualifying insurance policies. | HKAS 19.8 (2011) |
| **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 and short-term employee benefits) that are payable after the completion of employment. | HKAS 19.8 (2011) |
| **post-employment benefit plans** | Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. | HKAS 19.8 (2011) |
| **potential ordinary share** | A financial instrument or other contract that may entitle its holder to ordinary shares. | HKAS 33.5 |
| **power** | Existing rights that give the current ability to direct the relevant activities. | HKFRS 10.A |
| **presentation currency** | The currency in which the financial statements are presented. | HKAS 21.8 |
| **present value of a defined benefit obligation** | 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 19.8 (2011) |
| **previous GAAP** | The basis of accounting that a first-time adopter used immediately before adopting HKFRSs. | HKFRS 1.A |

| Term | Definition | Reference |
|---|---|---|
| **principal market** | The market with the greatest volume and level of activity for the asset or liability. | HKFRS 13.A |
| **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:<br>(a) was available when financial statements for those periods were authorised for issue; and<br>(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.<br>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 or loss** | The total of income less expenses, excluding the components of other comprehensive income. | HKAS 1.7 |
| **property, plant and equipment** | Tangible items that:<br>(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and<br>(b) are expected to be used during more than one period. | HKAS 16.6 |
| **prospective application** | Prospective application of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:<br>(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and<br>(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change. | HKAS 8.5 |
| **protective rights** | Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. | HKFRS 10.A |
| **provision** | A liability of uncertain timing or amount. | HKAS 37.10 |
| **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 |

| Term | Definition | Reference |
|---|---|---|
| **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:<br>(a) can be used only to pay or fund employee benefits under a defined benefit plan;<br>(b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:<br>(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or<br>(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid. | HKAS 19.8 (2011) |
| **realisable value** | The amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal. | F.4.55(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 |
| **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,<br>HKAS 36.6,<br>HKFRS 5.A |
| **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 person or entity that is related to the entity that is preparing its financial statements (in HKAS 24 referred to as the ‘reporting entity’).<br><br>(a) A person or a close member of that person’s family is related to a reporting entity if that person:<br><br>(i) has control or joint control over the reporting entity;<br><br>(ii) has significant influence over the reporting entity; or<br><br>(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.<br><br>(b) An entity is related to a reporting entity if any of the following conditions applies:<br><br>(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).<br><br>(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).<br><br>(iii) Both entities are joint ventures of the same third party.<br><br>(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.<br><br>(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.<br><br>(vi) The entity is controlled or jointly controlled by a person identified in (a).<br><br>(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 a reporting entity and a related party, regardless of whether a price is charged. | HKAS 24.9 (Revised) |
| **relevant activities** | For the purpose of HKFRS 10, relevant activities are activities of the investee that significantly affect the investee's returns. | HKFRS 10.A |

| | | |
|---|---|---|
| **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 |
| **remeasurement of the net defined benefit liability (asset)** | Comprises:<br>(a) actuarial gains and losses;<br>(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and<br>(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). | HKAS 19.8 (2011) |
| **removal rights** | Rights to deprive the decision maker of its decision-marking authority. | HKFRS 10.A |
| **reportable segment** | An operating segment for which HKFRS 8 requires information to be disclosed. | HKFRS 8.11 |
| **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:<br>(a) the scope of a business undertaken by an entity; or<br>(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:<br>(a) any cost of managing plan assets; and<br>(b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation. | HKAS 19.8 (2011) |
| **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 |
| **risk premium** | Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'. | HKFRS 13.A |
| **separate financial statements** | Those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with HKAS 39. | HKAS 27.4 |
| **separate vehicle** | A separately identifiable financial structure, including separate legal entities or entities recognised by statue, regardless of whether those entities have a legal personality. | HKFRS 11.A |
| **service cost** | Comprises:<br>(a) current service cost;<br>(b) past service cost; and<br>(C) any gain or loss on settlement. | HKAS 19.8 (2011) |
| **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, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions. | HKAS 19.8 (2011) |

© Copyright

| | | |
|---|---|---|
| **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<br>(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<br>(b) equity instruments (including shares or share options) of the entity or another group entity,<br>provided the specified vesting conditions, if any, are met. | HKFRS 2.A |
| **share-based payment transaction** | A transaction in which the entity<br>(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or<br>(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-term employee benefits** | Employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. | HKAS 19.8 (2011) |
| **significant influence** | The power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. | HKAS 28.3 (2011) |
| **spot exchange rate** | The exchange rate for immediate delivery. | HKAS 21.8 |
| **structured entity** | An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. | HKFRS 12.A |
| **subsidiary** | An entity that is controlled by another entity. | HKFRS 10.A |
| **tax base of an asset or liability** | The amount attributed to that asset or liability for tax purposes. | HKAS 12.5 |

* A 'group' is defined in Appendix A of HKFRS 10 *Consolidated Financial Statements* as 'a parent and its subsidiaries'.

| Term | Definition | Reference |
|---|---|---|
| **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:<br>(a) taxable temporary differences; or<br>(b) deductible temporary differences. | HKAS 12.5 |
| **termination benefits** | Employee benefits provided in exchange for the termination of an employee's employment as a result of either:<br>(a) an entity's decision to terminate an employee's employment before the normal retirement date; or<br>(b) an employee's decision to accept an offer of benefits in exchange for the termination of employment. | HKAS 19.8 (2011) |
| **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 |
| **transaction costs** | The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:<br>(a) They result directly from and are essential to that transaction.<br>(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in HKFRS 5). | HKFRS 13.A |
| **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 |

| Term | Definition | Reference |
|---|---|---|
| **transport costs** | The cost that would be incurred to transport an asset from its current location to its principal (or most advantageous) market. | HKFRS 13.A |
| **unbundle** | Account for the components of a contract as if they were separate contracts. | HKFRS 4.A |
| **unearned finance income** | The difference between:<br>(a) the gross investment in the lease, and<br>(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 |
| **unit of account** | The level at which an asset or a liability is aggregated or disaggregated in a HKFRS for recognition purposes. | HKFRS 13.A |
| **unobservable inputs** | Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. | HKFRS 13.A |
| **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:<br>(a) the period over which an asset is expected to be available for use by an entity; or<br>(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 |
| **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 |

| | | |
|---|---|---|
| **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 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 |