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HKFRS / IFRS UPDATE 2015/01

HKFRSs/IFRSs, HK(IFRIC) INTs/IFRICs AND AMENDMENTS THAT ARE MANDATORY FOR THE FIRST TIME FOR 31 DECEMBER 2014 YEAR ENDS

STATUS
Final

EFFECTIVE DATE
Various

ACCOUNTING IMPACT
May be significant

This Update covers HKFRSs/IFRSs, HK(IFRIC) Ints/IFRICs and amendments to HKFRSs/IFRSs that are effective for the first time in the annual financial statements of entities with 31 December 2014 year ends.

Paragraph 28 in HKAS/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosures to be made if the initial application of HKFRSs/IFRSs, HK(IFRIC) Ints/IFRICs and amendments has an effect on the current period or prior period (or would have an effect except that it is impracticable to determine the amount of the adjustment), or might have an effect on future periods.

The disclosure requirements are:

a) The title of the HKFRS/IFRS

b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions

c) The nature of the change in accounting policy

d) When applicable, a description of the transitional provisions

e) When applicable, the transitional provisions that might have an effect on future periods

f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

   i. For each financial statement line item affected

   ii. If HKAS/IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

g) The amount of the adjustment relating to periods before those presented, to the extent practicable

h) If retrospective application required is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Where applicable, the relevant BDO HKFRS/IFRS Updates have been referenced to each HKFRS/IFRS and HK(IFRIC) Int/IFRIC below.

BDO HKFRS/IFRS Updates and the BDO IFRS Illustrative Financial Statements for 31 December 2014 are available for download from our website at www.bdo.com.hk. The illustrative financial statements have incorporated relevant changes in accounting treatments as a consequence of the initial application of the various Amendments to IFRSs and the new IFRIC listed below.

The amendments to HKFRSs/IFRSs and the HK(IFRIC) Int/IFRIC that are effective for the first time in the annual financial statements of entities with a 31 December 2014 financial year end (all are mandatory for annual periods beginning on or after 1 January 2014) are as follows:

1. HKFRS/IFRS 10 - *Consolidated Financial Statements* (Amendments – Investment Entities)
2. HKAS/IAS 32 - *Financial Instruments: Presentation* (Amendments – Offsetting)
3. HKAS/IAS 36 - *Impairment of Assets* (Amendments – Recoverable Amount Disclosures)
4. HKAS/IAS 39 - *Financial Instruments: Recognition and Measurement* (Amendments – Novation of Derivatives)
5. HK(IFRIC) Int/IFRIC 21 *Levies*.

HKFRS/IFRS	New HKFRSs/IFRSs for 31 December 2014 year ends – HKFRSs/IFRSs, HK(IFRIC) Ints/IFRICs and Amendments	Effective Date
HKFRS/IFRS 10 *Consolidated Financial Statements*		
1. Amendments to HKFRS/IFRS 10, HKFRS/IFRS 12 and HKAS/IAS 27	*Investment Entities (Amendments to HKFRS/IFRS 10, HKFRS/IFRS 12 and HKAS/IAS 27)* The amendment introduces an exception to the principle that all subsidiaries are required to 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 in its consolidated and separate financial statements. They also introduce disclosure requirements for investment entities into HKFRS/IFRS 12 and amend HKAS/IAS 27. For more information see BDO HKFRS/IFRS Update 2012/12 (click here).	Mandatory adoption for periods beginning on or after 1 January 2014. Early adoption permitted.
HKAS/IAS 32 *Financial Instruments: Presentation*		
2. Amendments to HKAS/IAS 32	*Offsetting Financial Assets and Financial Liabilities (Amendments to HKAS/IAS 32)* The amendment clarifies the accounting requirements for offsetting financial instruments. HKAS/IAS 32.42, which is unchanged, requires that an entity offsets financial assets and financial liabilities when it has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. However, new guidance in HKAS/IAS 32.AG38B clarifies 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. Some gross settlement systems, which are used to settle financial assets and financial liabilities, may be considered equivalent to net settlement. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, offset will be required. This is only the case if the gross settlement system has features that either eliminate, or result in insignificant, credit and liquidity risk and will process receivables and payable in a single settlement process or cycle. The amendments are part of the IASB's offsetting project. As part of that project, the IASB also issued *Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*, which is effective from 1 January 2013. The HKICPA adopted the equivalent amendments to HKFRS 7.	Mandatory adoption for periods beginning on or after 1 January 2014. Early adoption permitted.

HKAS/IAS 36 *Impairment of Assets*		
3. Amendments to HKAS/IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets (Amendments to HKAS/IAS 36)* ***Disclosure – recoverable amount of an asset (or CGU)*** HKAS/IAS 36.134(c) currently requires that the recoverable amount of an asset (or CGU) is disclosed (if its carrying amount is significant), irrespective of whether an impairment has been recorded or reversed in respect of that asset (or CGU) during the period. Under the amendments, this requirement of HKAS/IAS 36.134(c) has been deleted. As a result the recoverable amount of an asset (or CGU) is required to be disclosed only where HKAS/IAS 36.130(e) applies, being periods in which an impairment has been either recorded or reversed in respect of that asset (or CGU). ***Clarification of disclosure requirements – fair value less costs of disposal*** An exemption from a requirement to provide disclosures in accordance with HKFRS/IFRS 13 *Fair Value Measurement* has been retained. However, the amendments to HKAS/IAS 36.130(f) would require an entity to make disclosures for fair value less costs of disposal that are consistent with those currently required for an asset (or CGU) where the recoverable amount has been determined on the basis of value in use. The amended disclosures also align within US GAAP disclosure requirements. The amended disclosure requirements of HKAS/IAS 36.130(f) require disclosure of: i. The level of the fair value hierarchy 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, disclosure is required of that change and the reason(s) for making it 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 (CGU's) recoverable amount is most sensitive iv. 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. For more information see BDO HKFRS/IFRS Update 2013/11 (click here).	Mandatory adoption for periods beginning on or after 1 January 2014. Early adoption permitted.

HKAS/IAS 39 *Financial Instruments: Recognition and Measurement*		
4. Amendments to HKAS/IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting (Amendment to HKAS/IAS 39)* The amendments introduce a narrow scope exception that would allow the continuation of hedge accounting under HKAS/IAS 39 (and HKFRS/IFRS 9) when a derivative is novated, subject to the following criteria: a. The novation comes as a consequence of laws or regulations (or the introduction of laws or regulations) b. The parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty of each party. Note: A clearing counterparty is either: - A central counterparty (or a 'clearing organisation' or 'clearing agency') - An entity or entities that are acting as counterparty in order to effect clearing by a central counterparty (eg a 'clearing member of a clearing organisation or a client of a clearing member of a clearing organisation). Note: When the parties replace their original counterparties with different clearing counterparties the exception will only apply if each of those clearing counterparties ultimately clears with the same central counterparty. c. Any changes to the hedging instrument are limited only to those that are necessary to effect such a replacement of the counterparty. These 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, and include: - Changes in the collateral requirements - Rights to offset receivables and payables balances - Charges levied. For more information see BDO HKFRS/IFRS Update 2013/12 (click here).	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
HK(IFRIC) Int/IFRIC 21 *Levies*		
5. HK(IFRIC) Int/ IFRIC 21	HK(IFRIC) Int/IFRIC 21 provides guidance on when to recognise a liability for a government imposed levies that: - Are accounted for in accordance with HKAS/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* - Where the timing and amount are certain. The following are not within the scope of HK(IFRIC) Int/IFRIC 21 and/or do not meet the definition of a levy:	Mandatory adoption for periods beginning on or after 1 January 2014. Early adoption permitted.

- Cost arising from the recognition of a levy liability
- Payments relating to a contractual payment under a contract with a government for the acquisition of an asset or rendering of services
- Emission trading schemes.

HK(IFRIC) Int/IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The following factors do not create or imply the existence of an obligating event:

- Preparation of the financial statements under the going concern principle
- Economic compulsion of the entity.

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time. If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is breached, and not before.

For more information see BDO HKFRS/IFRS Update 2013/13 (click here).

BDO's support and assistance on HKFRS/IFRS

For any support and assistance on HKFRS/IFRS, please talk to your usual BDO contact or email info@bdo.com.hk

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