

HKFRS / IFRS UPDATE 2015/02

HKFRSs/IFRSs, HK(IFRIC) INTs/IFRICs AND AMENDMENTS AVAILABLE FOR EARLY ADOPTION FOR 31 DECEMBER 2014 YEAR ENDS



HKFRSs/IFRSs, HK(IFRIC) Ints/IFRICs and amendments available for early adoption for 31 December 2014 year ends

STATUS

Final

EFFECTIVE DATE

Various

ACCOUNTING IMPACT

May be significant

In order to comply with paragraph 30 in HKAS/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* entities need to make disclosures about new HKFRSs/IFRSs that have been issued but are not yet effective when they have decided not apply the new HKFRSs/IFRSs at their reporting date. Disclosures need to include 'known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS/IFRS will have on the entity's financial statements in the period of initial application'.

To comply with the requirements set out above an entity considers disclosing:

- a) The title of the new HKFRS/IFRS
- b) The nature of the impending change or changes in accounting policy
- c) The date by which application of the HKFRS/IFRS is required
- d) The date as at which it plans to apply the HKFRS/IFRS initially
- e) Either:
 - i. A discussion of the impact that initial application of the HKFRS/IFRS is expected to have on the entity's financial statements
 - ii. Or if that impact is not known or reasonably estimable, a statement to that effect.

Where applicable, the relevant BDO HKFRS/IFRS Updates have been referenced to each HKFRS/IFRS below. These can be found on our website from the following link:

BDO HKFRS/IFRS Updates

<http://www.bdo.com.hk/web/en/publications/Publications/HKFRS>

The list below shows the HKFRSs/IFRSs (and amendments to HKFRSs/IFRSs) that have been issued but are not mandatory effective as at 31 December 2014

1. HKFRS/IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards / International Financial Reporting Standards* (Annual Improvements 2011 – 2013 Cycle)
2. HKFRS/IFRS 2 *Share-based Payment* (Annual Improvements 2010 – 2012 Cycle)
3. HKFRS/IFRS 3 *Business Combinations* (Annual Improvement 2010 – 2012 Cycle)
4. HKFRS/IFRS 3 *Business Combinations* (Annual Improvements 2011 – 2013 Cycle)
5. HKFRS/IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (Annual Improvements 2012 – 2014 Cycle)
6. HKFRS/IFRS 7 *Financial Instruments: Disclosures* (Annual Improvements 2012 – 2014 Cycle)
7. HKFRS/IFRS 8 *Operating Segments* (Annual Improvements 2010 – 2012 Cycle)
8. HKFRS/IFRS 9 *Financial Instruments* (2009)
9. HKFRS/IFRS 9 *Financial Instruments* (2010)
10. HKFRS/IFRS 9 *Financial Instruments* (2013)
11. HKFRS/IFRS 9 *Financial Instruments* (2014)
12. HKFRS/IFRS 9 *Financial Instruments* (own credit risk provision)
13. HKFRS/IFRS 10 *Consolidated Financial Statements* (Amendments – Sale or Contribution of Assets)
14. HKFRS/IFRS 11 *Joint Arrangements* (Amendments – Acquisitions of Interests in Joint Operations)
15. HKFRS/IFRS 13 *Fair Value Measurement* (Annual Improvements 2010 – 2012 Cycle)
16. HKFRS/IFRS 13 *Fair Value Measurement* (Annual Improvements 2011 – 2013 Cycle)
17. HKFRS/IFRS 14 *Regulatory Deferral Accounts*
18. HKFRS/IFRS 15 *Revenue*
19. HKAS/IAS 16 *Property, Plant and Equipment* (Annual Improvements 2010 – 2012 Cycle)
20. HKAS/IAS 16 *Property, Plant and Equipment* (Amendments - Acceptable Methods of Depreciation)
21. HKAS/IAS 19 *Employee Benefits* (Amendments – Defined Benefit Plans: Employee Contributions)
22. HKAS/IAS 19 *Employee Benefits* (Annual Improvements 2012 – 2014 Cycle)
23. HKAS/IAS 24 *Related Party Disclosures* (Annual Improvements 2010 – 2012 Cycle)
24. HKAS/IAS 27 *Separate Financial Statements* (Amendments – Equity Method in Separate Financial Statements)
25. HKAS/IAS 34 *Interim Financial Reporting* (Annual Improvements 2012 – 2014 Cycle)
26. HKAS/IAS 38 *Intangible Assets* (Annual Improvements 2010 – 2012 Cycle)
27. HKAS/IAS 38 *Intangible Assets* (Amendments – Acceptable Methods of Amortisation)
28. HKAS/IAS 40 *Investment Property* (Annual Improvements 2011 – 2013 Cycle)
29. HKAS/IAS 41 *Agriculture* (Amendments – Bearer Plants).

HKFRS/IFRS	Early HKFRSs/IFRSs adoptions for 31 December 2014 year ends	Effective Date
HKFRS/IFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards / International Financial Reporting Standards</i>		
1. Annual Improvements (2011–2013 Cycle)	<p><i>Meaning of effective HKFRSs/IFRSs</i></p> <p>The amendment to the <i>Basis for Conclusions</i> clarifies that an entity has an option to use either:</p> <ul style="list-style-type: none"> – The HKFRSs/IFRSs that are mandatory at the reporting date, or – One or more HKFRSs/IFRSs that are not yet mandatory, if those HKFRSs/IFRSs permit early application. <p>For more information see BDO HKFRS/IFRS Update 2014/05 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
HKFRS/IFRS 2 <i>Share-based Payment</i>		
2. Annual Improvements (2010–2012 Cycle)	<p><i>Definition of vesting condition</i></p> <p>The amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
HKFRS/IFRS 3 <i>Business Combinations</i>		
3. Annual Improvements (2010–2012 Cycle)	<p><i>Accounting for contingent consideration in a business combination</i></p> <p>The amendment clarifies that contingent consideration is assessed as either being a liability or an equity instrument on the basis of HKAS/IAS 32 <i>Financial Instruments: Presentation</i>, and also requires contingent consideration that is not classified as equity to be remeasured to fair value at each reporting date, with changes in fair value being reported in profit or loss.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
4. Annual Improvements (2011–2013 Cycle)	<p><i>Scope exceptions for joint ventures</i></p> <p>The amendments to HKFRS/IFRS 3 clarify that:</p> <ul style="list-style-type: none"> – The formation of all types of joint arrangements as defined in HKFRS/IFRS 11 (ie joint ventures and joint operations) are excluded from the scope of HKFRS/IFRS 3 – The scope exception only applies to the accounting by the joint arrangement in its own financial statements and not to the accounting by the parties to the joint arrangement for their interests in the joint arrangement. <p>For more information see BDO HKFRS/IFRS Update 2014/05 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.

HKFRS/IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
5. Annual Improvements (2012-2014 Cycle)	<p><i>Changes in methods of disposal</i></p> <p>The amendment clarifies that the reclassification of an asset or disposal group from being held for sale to being held for distribution to owners, or vice versa is considered to be a continuation of the original plan of disposal.</p> <p>Upon reclassification, the classification, presentation and measurement requirements of HKFRS/IFRS 5 are applied.</p> <p>If an asset ceases to be classified as held for distribution to owners, the requirements of HKFRS/IFRS 5 for assets that cease to be classified as held for sale apply.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/16 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
HKFRS/IFRS 7 <i>Financial Instruments: Disclosures</i>		
6. Annual Improvements (2012-2014 Cycle)	<p><i>Servicing contracts and the applicability of offsetting amendments in condensed interim financial statements</i></p> <p><i>Servicing contracts</i></p> <p>The amendment clarified the circumstances in which an entity has continuing involvement from the servicing of a transferred asset.</p> <p>Continuing involvement exists if the servicer has a future interest in the performance of the transferred financial asset. Examples of situations where continuing involvement exists are where a transferor's servicing fee is:</p> <ul style="list-style-type: none"> - A variable fee which is dependent on the amount of the transferred asset that is ultimately recovered; or - A fixed fee that may not be paid in full because of non-performance of the transferred financial asset. <p>The amendment is required to be applied retrospectively in accordance with HKAS/IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. However, the amendment needs not to be applied for any period beginning before the annual period in which the entity first applies the amendments.</p> <p>A consequential amendment has been made to HKFRS/IFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards/ International Financial Reporting Standards</i>, in order that the same transitional provision applies to first time adopters.</p> <p><i>Applicability of the offsetting amendments in condensed interim financial statements</i></p> <p>A further amendment to HKFRS/IFRS 7 has clarified that the application of the amendment <i>Offsetting Financial Assets and Financial Liabilities</i> (Amendments to HKFRS/IFRS 7) issued in December 2011 is not explicitly required for all interim periods. However, it is noted that in some cases these disclosures may need to be included in condensed interim financial statements in order to comply with HKAS/IAS 34.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/16 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.

HKFRS/IFRS 8 *Operating Segments*

7. Annual Improvements (2010-2012 Cycle)

Aggregation of operating segments

The amendments require additional disclosures regarding management's judgements when operating segments have been aggregated in determining reportable segments, including:

- A description of the operating segments that have been aggregated
- The economic indicators considered in determining that the aggregated operating segments share similar economic characteristics.

Reconciliation of the total of a reportable segment's assets to the entity's assets

The amendment clarifies that a reconciliation of the total of reportable segments assets to the entity's assets is only required if a measure of segment assets is regularly provided to the chief operating decision maker.

For more information see BDO HKFRS/IFRS Update 2014/04 (click [here](#)).

Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.

HKFRS/IFRS 9 *Financial Instruments*

8. HKFRS/IFRS 9 (2009)

Note: If an entity's date of initial application (the start of the period in which HKFRS/IFRS 9 is adopted) is before 1 February 2015, there is a choice of which version of HKFRS/IFRS 9 to adopt (2009, 2010, 2013 or 2014).

HKFRS/IFRS 9 (2009) applies to all assets within the scope of HKAS/IAS 39 *Financial Instruments: Recognition and Measurement*. HKFRS/IFRS 9 requires that on initial recognition, all financial assets are measured at fair value (plus an adjustment for certain transaction costs if they are not measured as at fair value through profit or loss) and are classified into one of two subsequent measurement categories:

- Amortised cost
- Fair value.

HKFRS/IFRS 9 (2009) eliminates the Held to Maturity (HTM), Available for Sale (AFS) and Loans and Receivables categories. In addition, the exception under which equity instruments and related derivatives are measured at cost rather than fair value, where the fair value cannot be reliably determined, has been eliminated with fair value measurement being required for all of these instruments.

A financial asset is measured after initial recognition at amortised cost only if it meets the following two conditions:

1. The objective of an entity's business model is to hold the financial asset in order to collect contractual cash flows
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Can only be applied if an entity's date of initial application is before February 2015.

	<p>All other instruments are required to be measured after initial recognition at fair value. HKFRS/IFRS 9 (2009) retains the current requirement for financial instruments that are held for trading to be recognised and measured at fair value through profit or loss, including all derivatives that are not designated in a hedging relationship.</p> <p>Hybrid contracts with a host that are within the scope of HKFRS/IFRS 9 (2009) (ie a financial host) must be classified in their entirety in accordance with the classification approach summarised above. This eliminates the existing HKAS/IAS 39 requirement to account separately for a host contract and certain embedded derivatives. The embedded derivative requirements under HKAS/IAS 39 continue to apply where the host contract is a non-financial asset and for financial liabilities.</p> <p>HKFRS/IFRS 9 (2009) includes an option which permits investments in equity instruments to be measured at fair value through other comprehensive income. This is an irrevocable election to be made, on an instrument by instrument basis, at the date of initial recognition. Where the election is made, no amounts are subsequently recycled from other comprehensive income to profit or loss. Where this option is not taken, equity instruments with the scope of HKFRS/IFRS 9 (2009) are classified as at fair value through profit or loss. Irrespective of the approach adopted for the equity instrument itself, dividends received on an equity instrument are always recognised in profit or loss (unless they represent a return of the cost of investment).</p> <p>Subsequent reclassification of financial assets between the amortised cost and fair value categories is prohibited, unless an entity changes its business model for managing its financial assets in which case reclassification is required. However, the guidance is restrictive and such changes are expected to be very infrequent. HKFRS/IFRS 9 (2009) states explicitly that the following are not changes in business model:</p> <ol style="list-style-type: none"> 1. A change in intention relating to particular financial assets (even in circumstances of significant changes in market conditions) 2. A temporary disappearance of a particular market for financial assets 3. A transfer of financial assets between parts of the entity with different business models. <p>Accounting impact: significant changes to the classification and measurement of financial assets.</p>	
9. HKFRS/IFRS 9 (2010)	<p>Note: If an entity's date of initial application (the start of the period in which HKFRS/IFRS 9 is adopted) is before 1 February 2015, there is a choice of which version of HKFRS/IFRS 9 to adopt (2009, 2010, 2013 or 2014).</p> <p>As noted above, HKFRS/IFRS 9 (2009) was published in November 2009 and contained requirements for the classification and measurement of financial assets (see note 8). Equivalent requirements for financial liabilities were added in October 2010, with most of them being carried forward unchanged from HKAS/IAS 39. In consequence:</p>	Can only be applied if an entity's date of initial application is before February 2015.

- A financial liability is measured as at fair value through profit or loss (FVTPL) if it is held for trading, or is designated as at FVTPL using the fair value option

- Other liabilities are measured at amortised cost.

In contrast to the requirements for financial assets, the bifurcation requirements for embedded derivatives have been retained; similarly, equity conversion features will continue to be accounted for separately by the issuer.

However, some changes have been made, in particular to address the issue of where changes in the fair value of an entity's financial liabilities designated as at FVTPL using the fair value option, which arise from changes in the entity's own credit risk, should be recorded. This amendment is a result of consistent feedback received by the IASB from its constituents that changes in an entity's own credit risk should not affect profit or loss unless the financial liability is held for trading.

HKFRS/IFRS 9 (2010) requires that changes in the fair value of financial liabilities designated as at FVTPL which relate to changes in an entity's own credit risk should be recognised directly in other comprehensive income (OCI). However, as an exception, where this would create an accounting mismatch (which would be where there is a matching asset position that is also measured as at FVTPL), an irrevocable decision can be taken to recognise the entire change in fair value of the financial liability in profit or loss.

The other changes made to the accounting requirements for financial liabilities are:

- Guidance has been added to assist in differentiating between credit risk and asset specific performance risk
- Consistent with the elimination of the potential, in very limited circumstances, for investments in unquoted equity instruments to be measured at cost, the exemption from fair value measurement for derivative liabilities that are linked to, and must be settled by delivery of, an unquoted equity instrument where the fair value of that equity instrument is not reliably measurable has been deleted.

A number of related disclosure requirements have been added to HKFRS/IFRS 7 *Financial Instruments: Disclosures*.

Accounting impact: changes in the fair value of liabilities designated as at fair value through profit or loss, that relate to changes in an entity's own credit risk, are now in most cases required to be recorded in Other Comprehensive Income. The exemption from fair value measurement for derivatives linked to unquoted equity instruments that cannot be reliably measured has been removed.

10. HKFRS/IFRS 9 (2013)	<p>Note: If an entity's date of initial application (the start of the period in which HKFRS/IFRS 9 is adopted) is before 1 February 2015, there is a choice of which version of HKFRS/IFRS 9 to adopt (2009, 2010, 2013 or 2014).</p> <p>Three significant changes/additions were made compared to the previous version of HKFRS/IFRS 9:</p> <ul style="list-style-type: none"> – Add new hedge accounting requirements – Withdraw the previous effective date of 1 January 2015 and leave it open pending the completion of outstanding phases of HKFRS/IFRS 9 – Make the presentation of changes in 'own credit' in other comprehensive income (OCI) for financial liabilities under the fair value option available for early adoption without early application of the other requirements of HKFRS/IFRS 9. <p>The new hedge accounting requirements are more principles-based, less complex, and provide a better link to risk management and treasury operations than the requirements in HKAS/IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The new model allows entities to apply hedge accounting more broadly to manage profit or loss mismatches, and as a result reduce 'artificial' hedge ineffectiveness that can arise under HKAS/IAS 39.</p> <p>Key changes introduced by the new model include:</p> <ul style="list-style-type: none"> – Simplified effectiveness testing, including removal of the 80-125% highly effective threshold – More items will now qualify for hedge accounting, eg pricing components within a non-financial item, and net foreign exchange cash positions – Entities can hedge account more effectively the exposures that give rise to two risk positions (eg interest rate risk and foreign exchange risk, or commodity risk and foreign exchange risk) that are managed by separate derivatives over different periods – Less profit or loss volatility when using options, forwards, and foreign currency swaps – New alternatives available for economic hedges of credit risk and 'own use' contracts which will reduce profit or loss volatility. <p>For more information see BDO HKFRS/IFRS Update 2014/02 (click here).</p>	Can only be applied if an entity's date of initial application is before February 2015.
11. HKFRS/IFRS 9 (2014)	<p>HKFRS/IFRS 9 <i>Financial Instruments</i> (2014) incorporates the final requirements on all three phases of the financial instruments projects – classification and measurement, impairment, and hedge accounting.</p> <p>HKFRS/IFRS 9 (2014) adds to the existing HKFRS/IFRS 9:</p> <ul style="list-style-type: none"> – New impairment requirements for all financial assets that are not measured at fair value through profit or loss 	Mandatory adoption for periods beginning on or after 1 January 2018. Early adoption permitted.

- Amendments to the previously finalised classification and measurement requirements for financial assets.

In a major change, which will affect all entities, a new 'expected loss' impairment model in HKFRS/IFRS 9 (2014) replaces the 'incurred loss' model in HKAS/IAS 39 *Financial Instruments: Recognition and Measurement*. Under HKFRS/IFRS 9 (2014), the impairment model is a more 'forward looking' model in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income (FVTOCI), an entity will now always recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition.

For trade receivables there is a practical expedient to calculate expected credit losses using a provision matrix based on historical loss patterns or customer bases. However, those historical provision rates would require adjustments to take into account current and forward looking information. The new impairment requirements are likely to bring significant changes. Although provisions for trade receivables may be relatively straightforward to calculate, new systems and approaches may be needed. However, for financial institutions the changes are likely to be very significant and require significant changes to internal systems and processes in order to capture the required information.

In other changes, HKFRS/IFRS 9 (2014) also introduces additional application guidance to clarify the requirements for contractual cash flows of a financial asset to be regarded as giving rise to payments that are Solely Payments of Principal and Interest (SPPI), one of the two criteria that need to be met for an asset to be measured at amortised cost. Previously, the SPPI test was restrictive, and the changes in the application of the SPPI test will result in additional financial assets being measured at amortised cost. For example, certain instruments with regulated interest rates may now qualify for amortised cost measurement, as might some instruments which only marginally fail the strict SPPI test.

A third measurement category has also been added for debt instruments - FVTOCI. This new measurement category applies to debt instruments that meet the SPPI contractual cash flow characteristics test and where the entity is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets.

In comparison with previous versions of HKFRS/IFRS 9, the introduction of the FVTOCI category may result in less profit or loss volatility, in particular for entities such as insurance companies which hold large portfolios with periodic buying and selling activities. The amendments could lead to significant reclassifications of debt instruments across the different measurement categories: amortised cost, FVTOCI, and FVTPL. This may lead to less volatility in profit or loss for debt investment portfolios, but greater equity volatility if assets are reclassified from amortised cost to FVTOCI (which could affect regulatory capital).

For more information see BDO HKFRS/IFRS Update 2014/13 (click [here](#)).

12. HKFRS/IFRS 9 (own credit risk requirements)	<p>HKFRS/IFRS 9 (2014) provides an option to early adopt the 'own credit' provisions for financial liabilities measured at fair value through profit or loss (FVTPL) under the fair value option without any of the other requirements of HKFRS/IFRS 9. This option will remain available until 1 January 2018.</p> <p>Entities that use the fair value option and designate financial liabilities at fair value through profit or loss (FVTPL) present the fair value changes in 'own credit' in OCI instead of profit or loss.</p> <p>Therefore, for financial liabilities designated at FVTPL, entities can continue to apply HKAS/IAS 39 <i>Financial Instruments: Recognition and Measurement</i> but follow the presentation requirement in HKFRS/IFRS 9 and present the changes in 'own credit' in OCI.</p> <p>This amendment is expected to mainly affect financial institutions and insurers.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/13 (click here).</p>	Can be applied until the effective date of IFRS 9 (2014) which is 1 January 2018.
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HKFRS/IFRS 10 *Consolidated Financial Statements*

13. Amendments to HKFRS/IFRS 10	<p><i>Amendments to HKFRS/IFRS 10 and HKAS/IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p> <p>The amendments clarify the accounting for transactions where a parent loses control of a subsidiary, that does not constitute a business as defined in HKFRS/IFRS 3 <i>Business Combinations</i>, by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method.</p> <p>In the case of any retained interest in the former subsidiary, gains and losses from the remeasurement are treated as follows:</p> <ul style="list-style-type: none"> – The retained interest is accounted for as an associate or joint venture using the equity method: <p>The parent recognises the gain or loss in profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The remainder is eliminated against the carrying amount of the investment in the associate or joint venture.</p> – The retained interest is accounted for at fair value in accordance with HKFRS/IFRS 9 <i>Financial Instruments</i>: <p>The parent recognises the gain or loss in full in profit or loss.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/15 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
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HKFRS/IFRS 11 *Joint Arrangements*

14. Amendments to HKFRS/IFRS 11	<p><i>Amendments to HKFRS/IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations</i></p> <p>The amendments require an entity to apply all of the principles of HKFRS/IFRS 3 <i>Business Combinations</i> when it acquires an interest in a joint operation that constitutes a business as defined by HKFRS/IFRS 3.</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
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	<p>The amendment also includes two new <i>Illustrative Examples</i>:</p> <ul style="list-style-type: none"> – Example 7: <i>Accounting for acquisitions of interests in joint operations in which the activity constitutes a business</i> – Example 8: <i>Contributing the right to use know-how to a joint operation in which the activity constitutes a business.</i> <p>A consequential amendment to HKFRS/IFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards/International Financial Reporting Standards</i> has also been made, to clarify that the exemption from applying HKFRS/IFRS 3 to past business combinations upon adoption of HKFRS/IFRS also applies to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business, as defined in HKFRS/IFRS 3.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/10 (click here).</p>	
HKFRS/IFRS 13 <i>Fair Value Measurement</i>		
15. Annual Improvements (2010-2012 Cycle)	<p><i>Short-term receivables and payables</i></p> <p>The amendment clarifies that short-term receivables and payables with no stated interest rate can still be measured at the invoice amount without discounting, if the effect of discounting is immaterial.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
16. Annual Improvements (2011-2013 Cycle)	<p><i>Scope of HKFRS/IFRS 13.52 (portfolio exemption)</i></p> <p>HKFRS/IFRS 13.52 defines the scope of the exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis. This is often referred to as the portfolio exception.</p> <p>The amendment clarifies that the portfolio exception applies to all contracts within the scope of HKAS/IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (or HKFRS/IFRS 9 <i>Financial Instruments</i> if this has been adopted early), regardless of whether they meet the definition of financial assets or financial liabilities in HKAS/IAS 32 <i>Financial Instruments: Presentation</i>.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/05 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
HKFRS/IFRS 14 <i>Regulatory Deferral Accounts</i>		
17. HKFRS/IFRS 14	<p>HKFRS/IFRS 14 is an interim standard, pending the outcome of the IASB's more comprehensive Rate-regulated Activities project, which was re-opened in September 2012.</p> <p>In many countries, industry sectors (including utilities such as gas, electricity and water) are subject to rate regulation where governments regulate the supply and pricing. This can have a significant effect on the amount and timing of an entity's revenue. Some national GAAPs require entities that operate in industry sectors subject to rate regulation, to recognise associated assets and liabilities.</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.

	<p>The scope of HKFRS/IFRS 14 is narrow, with this extending to cover only those entities that:</p> <ul style="list-style-type: none"> – Are first-time adopters of HKFRS/IFRS – Conduct rate regulated activities – Recognise associated assets and/or liabilities in accordance with their current national GAAP. <p>Entities within the scope of HKFRS/IFRS 14 would be afforded an option to apply their previous local GAAP accounting policies for the recognition, measurement and impairment of assets and liabilities arising from rate regulation, which would be termed regulatory deferral account balances.</p> <p>Any regulatory deferral account balances, and their associated effect on profit or loss, would be recognised and presented separately from other items in the primary financial statements. As a result, for those entities that elect to adopt HKFRS/IFRS 14, all other line items and subtotals would exclude the effects of regulatory deferral accounts, meaning that they would be comparable with other entities that report in accordance with HKFRS/IFRS but do not apply HKFRS/IFRS 14.</p> <p>Application guidance is included in HKFRS/IFRS 14 in respect of other HKFRSs/IFRSs that would need to be considered alongside the previous national GAAP accounting requirements in order for these regulatory deferral accounts to be accounted for appropriately in an entity's HKFRS/IFRS financial statements, including:</p> <ul style="list-style-type: none"> – HKAS/IAS 10 <i>Events after the Reporting Period</i> – HKAS/IAS 12 <i>Income Taxes</i> – HKAS/IAS 28 <i>Investments in Associates and Joint Ventures</i> – HKAS/IAS 33 <i>Earnings per Share</i> – HKAS/IAS 36 <i>Impairment of Assets</i> – HKFRS/IFRS 3 <i>Business Combinations</i> – HKFRS/IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> – HKFRS/IFRS 10 <i>Consolidated Financial Statements</i> – HKFRS/IFRS 12 <i>Disclosure of Interests in Other Entities</i>. <p>HKFRS/IFRS 14 has an effective date of 1 January 2016, with early application permitted.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/07 (click here).</p>	
HKFRS/IFRS 15 <i>Revenue from Contracts with Customers</i>		
18. HKFRS/IFRS 15	<p>HKFRS/IFRS 15 <i>Revenue from Contracts with Customers</i> supersedes HKAS/IAS 18 <i>Revenue</i>, HKAS/IAS 11 <i>Construction Contracts</i> and related Interpretations HK(IFRIC) Int/IFRIC 13 <i>Customer Loyalty Programmes</i>, HK(IFRIC) Int/IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, HK(IFRIC) Int/IFRIC 18 <i>Transfers of Assets from Customers</i> and HK(SIC)-Int/SIC 31 <i>Revenue – Barter Transactions Involving Advertising Services</i>).</p>	<p>Mandatory adoption for periods beginning on or after 1 January 2017. Early adoption permitted.</p>

The objective of HKFRS/IFRS 15 is to clarify the principles of revenue recognition. This includes removing inconsistencies and perceived weaknesses and improving the comparability of revenue recognition practices across companies, industries and capital markets. In doing so HKFRS/IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is, that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To accomplish this, HKFRS/IFRS 15 requires the application of the following five steps:

1. Identify the contract
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when each performance obligation is satisfied.

HKFRS/IFRS 15 also includes specific guidance related to several additional topics, some of the key areas are:

- Contract costs
- Sale with a right of return
- Warranties
- Principal vs agent considerations
- Customer options for additional goods and services
- Customers unexercised rights
- Non-refundable upfront fees (and some related costs)
- Licensing Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance.

Furthermore the guidance significantly enhances the required qualitative and quantitative disclosures related to revenue. The main objective of the requirements is the disclosure of sufficient information in terms of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In order to meet this objective, HKFRS/IFRS 15 requires specific disclosures for contracts with customers and significant judgements.

For more information see BDO HKFRS/IFRS Update 2014/09 (click [here](#)) and 2014/18 (click [here](#)).

HKAS/IAS 16 <i>Property, Plant and Equipment</i>		
19. Annual Improvements (2010-2012 Cycle)	<p><i>Revaluation method – proportionate restatement of accumulated depreciation</i></p> <p>The amendment clarifies the computation of accumulated depreciation when items of property, plant and equipment are subsequently measured using the revaluation model. The net carrying amount of the asset is adjusted to the revalued amount, and either:</p> <ol style="list-style-type: none"> i. The gross carrying amount is adjusted in a manner consistent with the net carrying amount (eg proportionately to the change in the [net] carrying value, or with reference to observable market data). Accumulated depreciation is then adjusted to equal the difference between the gross and net carrying amounts ii. Accumulated depreciation is eliminated against the gross carrying amount. <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
20. Amendments to HKAS/IAS 16	<p><i>Amendments to HKAS/IAS 16 and HKAS/IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation</i></p> <p>Paragraph 62A of HKAS/IAS 16 has been added to prohibit the use of revenue-based methods of depreciation for items of property, plant and equipment.</p> <p>Paragraph 62A clarifies that this is because the revenue generated by an activity that includes the use of an item of property, plant and equipment generally reflects factors other than the consumption of the economic benefits of the item, such as:</p> <ul style="list-style-type: none"> – Other inputs and processes – Selling activities and changes in sales – Volumes and prices, and – Inflation. <p>Paragraph 56 of HKAS/IAS 16, which includes guidance for the depreciation amount and depreciation period, has been expanded to state that expected future reductions in the selling price of items produced by an item of property, plant and equipment could indicate technical or commercial obsolescence (and therefore a reduction in the economic benefits embodied in the item), rather than a change in the depreciable amount or period of the item.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/08 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
HKAS/IAS 19 <i>Employee Benefits</i>		
21. Amendments to HKAS/IAS 19	<p><i>Amendments to HKAS/IAS 19 - Defined Benefit Plans: Employee Contributions</i></p> <p>The amendment introduces a narrow scope amendments that:</p>	Mandatory adoption for periods beginning on or after 1 July 2014.

	<ul style="list-style-type: none"> – Provides a practical expedient for certain contributions from employees or third parties to a defined benefit plan, but only those contributions that are independent of the number of years of service – Clarifies the treatment of contributions from employees or third parties to a defined benefit plan that are not subject to the practical expedient. These are accounted for in the same way that the gross benefit is attributed in accordance with HKAS/IAS 19.70. <p>Contributions that are independent of the number of years of service include:</p> <ul style="list-style-type: none"> – Contributions that are based on a fixed percentage of salary – Contributions of a fixed amount throughout the service period – Contributions that are dependent on the employee's age. <p>For more information see BDO HKFRS/IFRS Update 2013/08 (click here).</p>	Early adoption permitted.
22. Annual Improvements (2012-2014 Cycle)	<p><i>Discount rate - regional market issue</i></p> <p>The guidance in HKAS/IAS 19 has been clarified and requires that high quality corporate bonds used to determine the discount rate for the accounting of employee benefits need to be denominated in the same currency as the related benefits that will be paid to the employee.</p> <p>Entities are required to apply the amendment from the earliest comparative period presented in the financial statements, with initial adjustments being recognised in retained earnings at the beginning of that period.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/16 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
HKAS/IAS 24 Related Party Disclosures		
23. Annual Improvements (2010-2012 Cycle)	<p><i>Key management personnel</i></p> <p>The amendment clarifies that an entity that provides key management personnel services (management entity) to a reporting entity (or to the parent of the reporting entity), is a related party of the reporting entity, and:</p> <ul style="list-style-type: none"> – Would require separate disclosure of amounts recognised as an expense for key management personnel services provided by a separate management entity – Would not require disaggregated disclosures by the categories set out in HKAS/IAS 24.17. <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.
HKAS/IAS 27 Separate Financial Statements		
24. Amendments to HKAS/IAS 27	<p><i>Amendments to HKAS/IAS 27 – Equity Method in Separate Financial Statements</i></p> <p>The amendments include the introduction of an option for an entity to account for its investments in subsidiaries, joint ventures, and associates</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.

	<p>using the equity method in its separate financial statements. The accounting approach that is selected is required to be applied for each category of investment.</p> <p>Before the amendments, entities either accounted for its investments in subsidiaries, joint ventures or associates at cost or in accordance with HKFRS/IFRS 9 Financial Instruments (or HKAS/IAS 39 <i>Financial Instruments: Recognition and Measurement</i> for those entities that have yet to adopted HKFRS/IFRS 9). The option to present its investments using the equity method result in the presentation of a share of profit or loss, and other comprehensive income, of subsidiaries, joint ventures and associates with a corresponding adjustment to the carrying amount of the equity accounted investment in the statement of financial position. Any dividends received are deducted from the carrying amount of the equity accounted investment, and are not recorded as income in profit or loss.</p> <p>A consequential amendment was also made to HKAS/IAS 28 <i>Investments in Associates and Joint Ventures</i>, to avoid a potential conflict with HKFRS/IFRS 10 <i>Consolidated Financial Statements</i> for partial sell downs.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/14 (click here).</p>	
HKAS/IAS 34 <i>Interim Financial Reporting</i>		
25. Annual Improvements (2012-2014 Cycle)	<p><i>Disclosure of information 'elsewhere in the interim financial report'</i></p> <p>The requirements of paragraph 16A of HKAS/IAS 34 require additional disclosures to be presented either in the:</p> <ul style="list-style-type: none"> – Notes to the interim financial statements or – Elsewhere in the interim financial report. <p>The amendment clarifies, that a cross-reference is required, if the disclosures are presented 'elsewhere' in the interim financial report, such as in the management commentary or the risk report of an entity. However, to comply with paragraph 16A of HKAS/IAS 34, if the disclosures are contained in a separate document from the interim report, that document needs to be available to users of the financial statements on the same terms and at the same time as the interim report itself.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/16 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
HKAS/IAS 38 <i>Intangible Assets</i>		
26. Annual Improvements (2010-2012 Cycle)	<p><i>Revaluation method - proportionate restatement of accumulated amortisation</i></p> <p>The amendment clarifies the computation of accumulated amortisation when intangible assets are subsequently measured using the revaluation model. The net carrying amount of the asset is adjusted to the revalued amount, and either:</p> <ol style="list-style-type: none"> i. The gross carrying amount is adjusted in a manner consistent with the net carrying amount (eg proportionately to the change in the [net] carrying value, or with reference to observable market data). 	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.

	<p>Accumulated amortisation is then adjusted to equal the difference between the gross and net carrying amounts</p> <p>ii. Accumulated amortisation is eliminated against the gross carrying amount.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/04 (click here).</p>	
27. Amendments to HKAS/IAS 38	<p><i>Amendments to HKAS/IAS 16 and HKAS/IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation</i></p> <p>The amendments clarify that for intangible assets there is a rebuttable presumption that amortisation based on revenue is not appropriate.</p> <p>Paragraphs 98A - 98C of HKAS/IAS 38 have been added to clarify that there is a presumption that revenue-based amortisation is not appropriate, and that this can only be rebutted in limited circumstances where either:</p> <ul style="list-style-type: none"> – The intangible asset is expressed as a measure of revenue, or – Revenue and the consumption of the economic benefits of the intangible asset are highly correlated. <p>Paragraph 98B clarifies that as a starting point to determining an appropriate amortisation method, an entity could determine the 'predominant limiting factor' inherent in the intangible asset, for example:</p> <ul style="list-style-type: none"> – A contractual term which specifies the period of time that an entity has the right to use an asset – Number of units allowed to be produced – Fixed total amount of revenue allowed to be received. <p>Paragraph 98C then clarifies that where an entity has identified that the achievement of a revenue threshold is the predominant limiting factor of an intangible asset, it may be possible to rebut the presumption that revenue-based amortisation is not appropriate.</p> <p>For more information see BDO HKFRS/IFRS Update 2014/08 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.
HKAS/IAS 40 <i>Investment Property</i>		
28. Annual Improvements (2011-2013 Cycle)	<p><i>Clarifying the interrelationship of HKFRS/IFRS 3 and HKAS/IAS 40 when classifying property as investment property or owner-occupied property</i></p> <p>The amendment notes that determining whether the acquisition of an investment property is a business combination requires consideration of the specific requirements of HKFRS/IFRS 3, independently from the requirements of HKAS/IAS 40, in relation to:</p> <ul style="list-style-type: none"> – Whether the acquisition of investment property is the acquisition of an asset, a group of assets, or a business combination (by applying the requirements of HKFRS/IFRS 3 only) – Distinguishing between investment property and owner-occupied property (by applying the requirements of HKAS/IAS 40 only). <p>For more information see BDO HKFRS/IFRS Update 2014/05 (click here).</p>	Mandatory adoption for periods beginning on or after 1 July 2014. Early adoption permitted.

HKAS/IAS 41 <i>Agriculture</i>		
29. Amendments to HKAS/IAS 41	<p><i>Amendments to HKAS/IAS 16 and HKAS/IAS 41 – Agriculture: Bearer Plants</i></p> <p>The amendments extend the scope of HKAS/IAS 16 <i>Property, Plant and Equipment</i> to include bearer plants and define a bearer plant as a living plant that:</p> <ul style="list-style-type: none"> – Is used in the production process of agricultural produce, – Is expected to bear produce for more than one period; and – Has a remote likelihood of being sold (except incidental scrap sales). <p>The changes made result in bearer plants being accounted for in accordance with HKAS/IAS 16 using either:</p> <ul style="list-style-type: none"> – The cost model, or – The revaluation model. <p>The agricultural produce of bearer plants remains within the scope of HKAS/IAS 41 <i>Agriculture</i>.</p> <p>The amendments include the following transitional reliefs for the purposes of their first time application:</p> <ul style="list-style-type: none"> – Deemed cost exemption – Entities are allowed to use the fair value of the bearer plants at the beginning of the earliest period presented as the deemed cost. – Disclosures – Quantitative information describing the effect of the first time application as required by HKAS/IAS 8.28(f) is not required for the current reporting period, but is required for each prior period presented. <p>For more information see BDO HKFRS/IFRS Update 2014/12 (click here).</p>	Mandatory adoption for periods beginning on or after 1 January 2016. Early adoption permitted.

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