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HKFRS / IFRS UPDATE 2011/07
NEW AND REVISED HKFRSs FOR 31 DECEMBER 2011 YEAR ENDS REPORTING

Introduction

This update reminds you of the new and revised HKFRSs that come into effect for 2011. The table below provides a list of the new and revised HKFRSs that are mandatory for 2011 year ends which is followed by a brief overview of each pronouncement. Readers can also visit our website at www.bdo.com.hk and review past updates on these pronouncements for further guidance.

New and revised HKFRSs that are mandatory for the first time for 31 December 2011 year ends reporting

1.	HKFRS 1	*First-time Adoption of HKFRSs* - Amendment
2.	HKFRS 1	*First-time Adoption of HKFRSs* - Improvements to HKFRSs (2010)
3.	HKFRS 3	*Business Combinations* - Improvements to HKFRSs (2010)
4.	HKFRS 7	*Financial Instruments: Disclosures* - Improvements to HKFRSs (2010)
5.	HKAS 1	*Presentation of Financial Statements* - Improvements to HKFRSs (2010)
6.	HKAS 24	*Related Party Disclosures* – Revised
7.	HKAS 21	*The Effects of Changes in Foreign Exchange Rates* - Improvements to HKFRSs (2010)
	HKAS 28	*Investments in Associates* - Improvements to HKFRSs (2010)
	HKAS 31	*Interests in Joint Ventures* - Improvements to HKFRSs (2010)
8.	HKAS 32	*Financial Instruments: Presentation* – Amendment
9.	HKAS 34	*Interim Financial Reporting* - Improvements to HKFRSs (2010)
10.	HK(IFRIC)-Int 13	*Customer Loyalty Programmes* - Improvements to HKFRSs (2010)
11.	HK(IFRIC)-Int 14	*HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – Amendment
12.	HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

Mandatory HKFRSs Adoption for 2011 - Standards and Amendments		Effective Date
HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*		
1. Amendment	***Limited exemption from comparative HKFRS 7 disclosures for first-time adopters*** The amendment permits first-time adopters to use the same transitional provisions as are available to existing preparers of HKFRSs financial statements that are included in *Improving Disclosures about Financial Instruments (Amendments to HKFRS 7)*. This means that an entity need not present comparative information for the disclosures required by the amendment to HKFRS 7 for: (a) any annual or interim period, including any statement of financial position, presented within an annual comparative period ended before 31 December 2009, or (b) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.	Mandatory adoption for annual periods beginning on or after 1 July 2010 Early adoption permitted
2. Improvements to HKFRSs (2010)	***Changes in accounting policies during an entity's year of adoption of HKFRSs*** If a first-time adopter changes its accounting policies or its use of exemptions in HKFRS 1 after the date of its first interim financial report prepared in accordance with HKAS 34, but before the issue of its first annual HKFRSs financial statements, the reconciliations between previous GAAP and HKFRSs are required to be updated. The requirements of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply. ***Use of revalued amount as deemed cost*** The relief available under HKFRS 1 for the use of fair value as deemed cost has been extended from "event driven fair value" measurements which are carried out at or before an entity's date of transition to HKFRSs to include measurements that are carried out between the date of transition and the end of the entity's first annual HKFRSs reporting period. An event driven fair value is specified as a re-measurement to fair value of some or all assets and liabilities on an event such as a privatisation or public offering. As an example, if an entity chooses to use an event driven fair value as deemed cost under HKFRSs for an asset where the measurement date is after its date of transition to HKFRSs but before the end of the entity's first annual HKFRSs reporting period, an adjustment will be made to equity as at the fair value measurement date. During the period from transition date to the fair value measurement date, historical cost or other amounts permitted by HKFRSs are presented. The HKICPA agreed with IASB's rejection of an approach of "working back" from the measurement date to a deemed cost at an entity's date of transition to HKFRSs, on the basis that this would require the use of hindsight and would result in a carrying amount at transition date that was neither historical cost nor fair value. ***Deemed cost for assets used in operations subject to rate regulation*** The amendment permits a first-time adopter to use its previous GAAP carrying amounts for property, plant and equipment and intangible assets that are, or were previously, used in operations subject to rate regulation, as deemed cost at the date of transition to HKFRSs. This election is available on an individual asset basis.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted

<table>
<tr><th colspan="2">Mandatory HKFRSs Adoption for 2011 - Standards and Amendments</th><th>Effective Date</th></tr>
<tr><td colspan="3">HKFRS 3 Business Combinations</td></tr>
<tr><td>3. Improvements to HKFRSs (2010)</td><td> Measurement of non-controlling interests (NCI)
The amendment clarifies that the option to measure NCI at either fair value, or the proportionate share of the acquisition date fair value of the acquiree's identifiable net assets that are recognised by the acquirer, applies only to instruments that give the NCI a present ownership interest and entitle the holder to a proportionate share of net assets in the event of liquidation. All other components of NCI are measured at their acquisition date fair value, unless another measurement is required by HKFRSs.
The amendment has been made to ensure that certain components of NCI are not measured at zero. For example, if a share-based payment transaction is classified as equity, it is measured in accordance with HKFRS 2 Share-based Payment. Another example is a preference share that represents NCI, being an equity instrument, with its holder being entitled to a return of the initial amount subscribed on liquidation. The NCI that relates to the preference shares is measured at fair value.
Share-based payment transactions of an aquiree that are either not replaced on a business combination or are voluntarily replaced
The current requirement for an acquirer to measure share-based payment awards that it issues to replace existing awards of an acquiree at the acquisition date, in accordance with HKFRS 2, is extended. This means that existing share-based payment awards of an acquiree that are not replaced in a business combination are also measured by the acquirer in accordance with HKFRS 2 at the acquisition date. If the awards have not vested at the acquisition date, they are accounted for as if the acquisition date was the grant date. If the awards have vested at the acquisition date, they are accounted for as part of NCI in the acquiree.
An acquirer may exchange its own share-based payment awards for awards held by employees of the acquiree. The current requirement is to account for that exchange as a modification of the existing arrangement where the acquirer is obliged to replace the existing awards. This requirement is retained with the amount calculated in accordance with HKFRS 2 being allocated between the cost of the business combination and post acquisition services. The amendment extends this to cover replacement awards where the acquirer is not obliged to replace the existing awards, but chooses to do so voluntarily.
In some cases, existing share-based payment awards previously issued by an acquiree expire as a result of a business combination. In those circumstances, if the acquirer replaces those awards voluntarily, the entire fair value of those replacement awards calculated in accordance with HKFRS 2 is accounted for as a post acquisition remuneration expense.
Transition - contingent consideration balances arising from business combinations that took place prior to the adoption of HKFRS 3 (2008)
HKFRS 3 (2008) included a consequential amendment to HKAS 39 that brought contingent consideration balances arising on a business combination within the scope of that standard. This means that instead of changes in the carrying amount of contingent consideration after the acquisition date being accounted for as an adjustment to the cost of the original business combination, they are now accounted for in accordance with HKAS 39 and recognised in profit or loss. The amendment clarifies that the change in scope of HKAS 39 is applied to business combinations on a prospective basis, meaning that where a business combination took place before the date of adoption of HKFRS 3 (2008), changes in contingent consideration are still accounted for as an adjustment to the cost of the original business combination. </td><td> Mandatory adoption for annual periods beginning on or after 1 July 2010 Early adoption permitted </td></tr>
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Mandatory HKFRSs Adoption for 2011 - Standards and Amendments		Effective Date
HKFRS 7 *Financial Instruments: Disclosures*		
4. Improvements to HKFRSs (2010)	***Clarification of disclosure requirements*** The amendment clarifies quantitative disclosure requirements for risks arising from financial instruments, and encourages accompanying narrative disclosures if the concentration of risk is not apparent from the quantitative disclosures. The requirements for disclosures of credit risk, including collateral held, are clarified and reduced, with the carrying amount of assets that would have been past due or impaired unless they had been renegotiated no longer needing to be disclosed.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted
HKAS 1 *Presentation of Financial Statements*		
5. Improvements to HKFRSs (2010)	***Presentation of changes in equity*** The amendment clarifies that the analysis of items of other comprehensive income may be shown in either the (primary) statement of changes in equity, or in the notes to the financial statements.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted
HKAS 24 *Related Party Disclosures*		
6. Revision	HKAS 24 was revised in response to concerns that, the application of the existing disclosure requirements and the definition of a related party could be complex and difficult to apply in practice, particularly in environments where government control is pervasive. The revisions address these concerns by: • providing a partial exemption for government-related entities - under the previous requirements, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard requires such entities to disclose information about individually and collectively significant related party transactions only; • providing a revised definition of a related party - the definition of a related party has been simplified and inconsistencies eliminated. Illustrative examples have also been added. The revised definition means that some entities may have more related parties for which disclosures will be required. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted
HKAS 21 *The Effects of Changes in Foreign Exchange Rates* HKAS 28 *Investments in Associates* HKAS 31 *Interests in Joint Ventures*		
7. Improvements to HKFRSs (2010)	***Transitional requirements*** It has been clarified that the amendments made to HKAS 21, HKAS 28 and HKAS 31 as a consequence of HKAS 27 (2008) are to be applied prospectively from the date of adoption of that standard (which is effective for annual periods beginning on/after 1 July 2009 with earlier application permitted). As exceptions, certain requirements of HKAS 28 and HKAS 31, which relate to accounting in the separate financial statements of the investor, are applied retrospectively.	Mandatory adoption for annual periods beginning on or after 1 July 2009 Early adoption permitted

Mandatory HKFRSs Adoption for 2011 - Standards and Amendments		Effective Date
HKAS 32 *Financial Instruments: Presentation*		
8. Amendment	*Classification of rights issues* The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities as the exposure to changes in exchange rates meant that the "fixed for fixed" criterion was not met. However, the amendment requires that, provided 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, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.	Mandatory adoption for annual periods beginning on or after 1 February 2010 Early adoption permitted
HKAS 34 *Interim Financial Reporting*		
9. Improvements to HKFRSs (2010)	*Content of an interim financial report - significant events and transactions* The amendments emphasise that disclosure about significant transactions and events is required to update relevant information presented in the most recent annual financial report. HKAS 34 has been made more specific about events and transactions for which disclosure is required, and guidance has been added covering the application of the requirements for financial instruments.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted
HK(IFRIC)-Int 13 *Customer Loyalty Programmes*		
10. Improvements to HKFRSs (2010)	*Fair value of award credits* The amendment clarifies that the fair value of award credits includes consideration of the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted
HK(IFRIC)-Int 14 *HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*		
11. Amendment	*Prepayment of a minimum funding requirement* The amendment applies in the limited circumstances in which an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment expands the circumstances in which the benefit of such an early payment is recorded as an asset.	Mandatory adoption for annual periods beginning on or after 1 January 2011 Early adoption permitted

Mandatory HKFRSs Adoption for 2011 - Standards and Amendments		Effective Date
HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments*		
12. New Interpretation	***Accounting for debt for equity swaps*** HK(IFRIC)-Int 19 addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability (a "debt for equity swap"). HK(IFRIC)-Int 19 does not apply to arrangements in which liabilities are extinguished in return for equity instruments in accordance with the original terms of the financial liability (such as convertible debt, which continues to be addressed by HKAS 32), nor does it address the appropriate accounting approach to be adopted by the creditor. For transactions within its scope, where the whole of a financial liability is extinguished, HK(IFRIC)-Int 19 requires the equity instruments issued to be measured at their fair value and the difference between that fair value and the carrying value of the financial liability extinguished to be recognised in profit or loss. Where only part of the financial liability is extinguished, an allocation of the consideration (i.e. the fair value of equity instruments issued) between the extinguished portion of the liability and the part of the liability that remains outstanding may be required depending on whether the contractual terms of the remaining liability have been modified and whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If it is not possible to reliably measure the equity instruments issued, the fair value of the debt extinguished is used instead. However, in these circumstances the guidance in HKAS 39.49 relating to the valuation of financial liabilities with a demand feature is not applied.	Mandatory adoption for annual periods beginning on or after 1 July 2010 Early adoption permitted

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