

Annual Improvements to HKFRSs 2011 – 2013 Cycle

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MAIN FEATURES

- Amendments related to the following standards:
 - HKFRS 1 First-time adoption of Hong Kong Financial Reporting Standards
 - HKFRS 3 Business combinations
 - HKFRS 13 Fair value measurement
 - HKAS 40 Investment property
- Apply the amendments **prospectively** for annual periods beginning on or after 1 January 2014 unless otherwise stated. Early application is permitted

Background

In order to maintain coverage with IFRSs, the HKICPA has issued Annual Improvements to HKFRSs 2011 – 2013 Cycle to incorporate the amendments to the four standards. These amendments are identical as the revised IFRSs issued by IASB in December 2013.

What are the amendments?

The following table lists out the areas addressed by the amendments to four standards:

<u>HKFRS / HKAS</u>	<u>Subject of amendment</u>	<u>Before amendments</u>	<u>Summary of amendments</u>
HKFRS 1	Meaning of effective HKFRSs	<ul style="list-style-type: none"> An entity shall use same accounting policies in its first HKFRS financial statement. Those accounting policies shall comply with <u>each HKFRS effective at the end of its first HKFRS reporting period.</u> However, it is uncertain about which version of an HKFRS should be applied. 	<ul style="list-style-type: none"> An entity has the choice either to apply: <ul style="list-style-type: none"> (a) currently mandatory HKFRS or (b) the new or revised HKFRS that is not yet mandatory, if that HKFRS permits early application in its first HKFRS financial statements. If an entity chooses option (b), it must apply the standard(s) throughout all periods presented unless exemption or exception is provided.
HKFRS 3	Scope exceptions for joint ventures	<ul style="list-style-type: none"> HKFRS does not apply to the formation of <u>a joint venture</u> 	<ul style="list-style-type: none"> HKFRS does not apply to the formation of <u>all types of joint arrangements</u> as defined in HKFRS 11.

<u>HKFRS / HKAS</u>	<u>Subject of amendment</u>	<u>Before amendments</u>	<u>Summary of amendments</u>
			<ul style="list-style-type: none"> Clarify to exclude only the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself and not the accounting by the parties to the joint arrangement for their interests in the joint arrangement.
HKFRS 13	Scope of paragraph 52 (portfolio exception)	<ul style="list-style-type: none"> Permit an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis if the entity manages them on the basis of its net exposure to either market risk or credit risk ("Portfolio Exception") 	<ul style="list-style-type: none"> Clarify the Portfolio Exception applies to ALL contracts within the scope of HKAS 39 regardless they meet the definition of financial assets and financial liabilities as defined in HKAS 32. One example is contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument. Apply prospectively from the beginning of the annual period in which HKFRS 13 was initially applied.

<u>HKFRS / HKAS</u>	<u>Subject of amendment</u>	<u>Before amendments</u>	<u>Summary of amendments</u>
HKAS 40	Clarify the inter-relationship of HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property	<ul style="list-style-type: none"> ● Judgement is needed to determine whether a property qualifies as investment properties 	<ul style="list-style-type: none"> ● Clarify HKAS 40 and HKFRS 3 are not mutually exclusive. Application of both standards is required. ● Clarify judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of HKFRS 3.



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