



TechWatch 79

The latest standards and technical developments

► Financial reporting

HKFRS insights on amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosure about Financial Instruments*

Amendments to HKFRS 7 form part of the Institute's focused response to the financial crisis and address the G20 conclusions aimed at improving transparency and enhancing accounting guidance. The improvements also reflect discussions on measuring and disclosing fair values of financial instruments when markets are no longer active.

These amendments introduce a three-level hierarchy for fair value measurement disclosures. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help improve comparability between entities about the effects of fair value measurements.

In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

This is to ensure that the disclosures enable users of an entity's financial statements to evaluate the nature and extent of liquidity risk arising from financial instruments, and how the entity manages that risk.

The amendments to HKFRS 7 apply for annual periods beginning on or after 1 January 2009. An entity will not be required to provide comparative disclosures in the first year of application.

Institute invites comment on IASB discussion paper and exposure drafts (i) IASB discussion paper on *Preliminary Views on Leases*

The Institute has issued an invitation to comment on this discussion paper by 3 July. Lease accounting under U.S. GAAP and IFRSs is often criticized as being too reliant on bright lines and subjective judgments. In this discussion paper, the IASB and FASB discuss a possible new approach to lease accounting.

The boards propose lease accounting should be based on the principle that all leases give rise to

liabilities for future rental payments and assets (the right to use the leased asset) should be recognized in an entity's statement of financial position. This approach will ensure leases are accounted for consistently across sectors and industries.

(ii) **IASB exposure draft of *Income Tax***
The Institute has issued an invitation to comment on this exposure draft by 10 July. The exposure draft proposes to replace IAS 12 *Income Tax* with a new standard, but retain the temporary difference approach for deferred taxes. The objective is to recognize the future tax consequences of past events and transactions now, rather than waiting until the tax is payable.

Although the proposed standard retains the same principle, the IASB proposes to remove most of the exceptions in IAS 12 to simplify the accounting and strengthen the principle in the standard. In addition, the IASB proposes a change in structure to make the standard easier to use.

(iii) IASB exposure draft of *Proposed Amendments to IAS 39 and IFRS 7 – Derecognition*

The Institute has issued an invitation to comment by 10 July. The objective of this exposure draft is to improve the derecognition requirements for financial instruments and enhance disclosure requirements, especially in situations where an entity continues to have an ongoing involvement in a financial asset that would be derecognized under the proposals. The additional disclosures would allow users to make a better assessment of the risks associated with such an asset.

Institute responds to IASB draft pronouncements

(i) IASB discussion paper on *Preliminary Views on Financial Statement Presentation*

The Institute has various concerns with the approach of this discussion paper and several proposals in particular:

- Although the Institute agrees that the cohesiveness principle on which the proposals are based provides a sound conceptual approach to presentation and facilitates understanding by users, the Institute is concerned that the implementation of the principle in the discussion paper is not done in a pragmatic way.
- The Institute is not convinced that the option to prepare an indirect method cash flow statement should be eliminated.
- The Institute disagrees with requiring a reconciliation schedule.
- The proposals in this discussion paper would require significant changes to existing financial systems with commentators questioning whether the benefits would outweigh the significant costs.

(ii) IASB requests for views – FASB proposals on fair value measurement

and impairments of financial instruments

The proposed form of draft Staff Positions 157-e introduces a presumption that quoted prices in inactive markets reflect distressed transactions unless proven otherwise. The Institute does not support this presumption because it believes under current market conditions, observable transaction prices in inactive markets in many cases are depressed not because transactions involve a distressed party, but because of market uncertainty and increased risk premiums for illiquidity.

Regarding the recognition and presentation of other-than-temporary impairment, there are differences regarding impairment triggers, measurement of impairment losses and reversals of impairment losses between IFRS and U.S. GAAP. To improve the reporting of impairment loss of financial instruments, the Institute highly recommends that efforts be placed on developing a consistent model under the comprehensive project undertaken with the FASB.

► **Legislation and other initiatives**

Combating money laundering/terrorist financing

Members may wish to note that the following updated lists and statements have been published in the government gazette or other publications:

- Government notice 2153: terrorists and terrorist associates specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- U.S. executive order 13224: Adds names of individuals and entities to the list relating to “Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit or Support Terrorism.”

For more background information on the current law in Hong Kong relating to anti-money laundering, see the Institute’s Legal Bulletin 1, “Requirements on Anti-money Laundering, Anti-terrorist Financing and Related Matters.”

Other updates in TechWatch 79:

- The Institute is offering a number of free technical seminars to support members in the economic downturn, including alert on going concern and liquidity risk – HKSA 570 *Going Concern*, and fair value accounting and the financial tsunami. Please register early to secure seating.
- The Institute has updated a list of new and amended standards and interpretations that are applicable to December 2008 year end, December 2009 year end and effective subsequent to December 2009 year end.
- The IASB met in April and discussed topics including the global financial crisis, discontinued operations, earnings per share, first-time adoption of IFRSs, IFRS for small and medium sized entities, insurance contracts and liabilities.
- The IAASB meets this month in Lisbon, Portugal.
- An online view function is now available to search for document images at the Companies Registry’s Cyber Search Centre. Customers can view images online, in PDF format, after payment of search fees.
- New Companies Registry information pamphlets are now available for registration of a trust company and registration of a limited partnership.

🔗 **Quick link**

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