

New and revised standards applicable to 2013 year-end

The Institute has issued the following new and revised standards and interpretations that are applicable to December 2013 year-end.

- HKFRS 10 *Consolidated Financial Statements*
- HKFRS 11 *Joint Arrangements*
- HKFRS 12 *Disclosure of Interests in Other Entities*
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- HKAS 27 (2011) *Separate Financial Statements*
- HKAS 28 (2011) *Investments in Associates and Joint Ventures*
- HKFRS 13 *Fair Value Measurement*
- Amendments to HKAS 1 (Revised) *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- HKAS 19 (2011) *Employee Benefits*
- Amendments to HKFRS 1 *First-time Adoption of HKFRS – Government Loans*
- Amendments to HKFRS 7 *Financial Instruments: Disclosures – Disclosures – Offsetting Financial Assets and Financial Liabilities*
- HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements 2009-2011 Cycle*

HKFRS 10 was part of the so-called “package of five” new and revised standards issued in mid-2011, which address the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities including HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011). HKFRS 10 defines the principles of control and sets out how to apply the principles to

identify whether an investor controls an investee and therefore to consolidate the investee.

Unlike HKAS 27 (Revised) *Consolidated and Separate Financial Statements*, which defined “control” as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and HK(SIC) – Int 12 *Consolidation – Special Purpose Entities*, which placed greater emphasis on risks and rewards to serve as a basis for consolidation, HKFRS 10 introduces a single control model, which is applicable to all types of entities and states that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The application of the new standard on consolidation may change some of the consolidation conclusions, however, it is not expected to change for most straightforward or uncomplicated ownership structures.

Guidance has also been provided in HKFRS 10 on assessing whether an entity with decision-making rights is acting as principal or agent, the determination of which is particularly important for a fund manager in deciding whether it has to consolidate its managed funds or not.

HKFRS 11 addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Under this standard, joint arrangements are classified as either joint operations or joint ventures and the classification is based on the parties’ rights and obligations arising from the arrangement.

This standard requires a joint operator to recognize and measure assets and liabilities (and recognize related revenues

and expenses) relating to its interest in the arrangement in accordance with relevant standards that apply to those particular assets, liabilities, revenues and expenses; while it requires a joint venturer to recognize its interest by using the equity method in accordance with HKAS 28(2011). Proportionate consolidation is no longer permitted.

HKFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in other entities, as well as the effects of those interests on its financial position, financial performance and cash flows.

HKFRS 13 defines fair value, explains how to measure fair value and prescribes disclosure requirements for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date – that is, an exit price.

The standard also provides guidance with respect to fair value measurement of non-financial assets, liabilities and an entity’s own equity instruments and categorizes fair value measurement into a three-level hierarchy, based on the type of inputs to the valuation techniques used. Enhanced disclosure requirements are included, with emphasis being placed on Level 3 measurements (that is, by using significant unobservable inputs).

In accordance with paragraph 30 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when an entity has not applied a new or



revised HKFRS (including standard and interpretation) that has been issued but is not yet effective, the entity shall disclose this fact and provide known or reasonably estimable information relevant to assessing the possible impact that application of the new HKFRS will have on the entity's financial statements in the period of initial application.

At the time of writing, new or revised standards and interpretations that have been issued by the Institute but have yet to be effective are listed as follows:

- HKFRS 9 *Financial Instruments*
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
- Amendments to HKAS 19 *Employee Benefits* – *Defined Benefit Plans: Employee Contributions*
- Amendments to HKAS 32 *Financial Instruments: Presentation* – *Offsetting Financial Assets and Financial Liabilities*
- Amendments to HKAS 36 *Impairment of Assets* – *Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* – *Novation of Derivatives and Continuation of Hedge Accounting*
- HK(IFRIC) – *Int 21 Levies*

The Institute has compiled a list to summarize the new and revised HKFRS issued that are applicable to the December 2013 year-end, available at www.hkicpa.org.hk.



This article is contributed by the Institute's Standard Setting Department.