New and revised standards, interpretations applicable to a year-end of December 2014

The Institute has issued the following new and revised standards and interpretations that are applicable to a December 2014 year-end.

- Amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 27 (2011) *Separate Financial Statements* – Investment Entities
- 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 *Investment Entities* amendments apply to a particular class of business that qualify as investment entities. The term "investment entity" refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organizations, venture capital organizations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities are required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

Amendments to HKAS 32 address inconsistencies in current practice when applying the offsetting criteria and clarify:

- The meaning of "currently has a legally enforceable right of set-off"; and
- That some gross settlement systems (such as central clearing house systems) may be considered equivalent to net settlement.

The amendments to HKAS 36 clarify the disclosure requirements in respect of fair value less costs of disposal. When HKFRS 13 *Fair Value Measurement* was issued, a consequential amendment had been made to HKAS 36, which required the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

An unintended consequence of those amendments was that an entity would instead be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendments.

The narrow-scope amendments to HKAS 39 allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

HK(IFRIC) – Int 21 addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question concerns when the entity should recognize a liability to pay a levy. This interpretation:

- Confirms that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy;
- Clarifies that if a levy is payable only once a specified minimum threshold has been reached, then no liability is recognized until the threshold is reached; and
- Confirms that the same recognition

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principles apply in the interim financial statements as in the annual financial statements, even if this results in an uneven allocation of expenses throughout the year.

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:

- Amendments to HKAS 19 *Employee Benefits* – Defined Benefit Plans: Employee Contributions
- *Annual Improvements to HKFRS 2010-2012 Cycle*
- *Annual Improvements to HKFRS 2011-2013 Cycle*
- *Annual Improvements to HKFRS 2012-2014 Cycle*
- HKFRS 14 *Regulatory Deferral Accounts*
- Amendments to HKFRS 10 and HKAS 28 *Investments in Associates and Joint Ventures* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to HKFRS 11 *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortization
- Amendments to HKAS 16 and HKAS 41 *Agriculture* – Agriculture: Bearer Plants
- Amendments to HKAS 27 – *Equity Method in Separate Financial Statements*
- HKFRS 15 *Revenue from Contracts with Customers*
- HKFRS 9 (2014) *Financial Instruments*

The Institute has compiled a list to summarize those new and revised HKFRS issued that are applicable to the December 2014 year-end. This can be accessed at the Institute's website.

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

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