Amendments to HKFRS to improve the presentation and disclosure in financial reports and introduce minor clarifications to requirements for accounting for investment entities

Disclosure Initiative (amendments to HKAS 1 *Presentation of Financial Statements*)

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in financial statements, which include narrow-focus improvements to the following areas:

Materiality and aggregation

The amendments clarify the materiality guidance in HKAS 1 that it applies to the financial statements as a whole even if those disclosures are required as "a minimum" by a particular standard (i.e. an entity does not have to disclose information required by a standard if that information would not be material).

On the other hand, the amendments also clarify that an entity should make additional disclosures when compliance with the specific requirements in the Hong Kong Financial Reporting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

A new requirement has been added to HKAS 1 to highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. This requirement emphasizes that an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions.

Obscuring material information with immaterial information in financial statements makes the material information less visible and therefore makes the financial statements less understandable. The amendments do not actually prohibit entities from disclosing immaterial information, because such a requirement would not be operational; however, the amendments emphasize that disclosure should not result in material information being obscured.

Disaggregation and subtotals

The amendments clarify that line items in the statement of financial position and the statement(s) of profit or loss and other comprehensive income should be disaggregated if this is relevant to an understanding of the entity's financial position and performance.

When an entity presents subtotals to enable better understanding of the entity's financial position and financial performance, the amendments require those subtotals to:

i) Be comprised of line items made up of amounts recognized and measured in accordance with HKFRS;
ii) Be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
iii) Be consistent from period to period; and
iv) Not be displayed with more prominence than the subtotals and totals required in HKFRS.

Subtotals presented in the statement(s) of profit or loss and other comprehensive income should reconcile back to the line items required by HKFRS.

Notes structure

Paragraph 114 of HKAS 1 states that "an entity normally presents notes in the following order" and then lists a particular order for the notes. However, some constituents are of the view that the use of "normally" makes it difficult for an entity to vary the order of the notes.

As a result, paragraph 114 has been amended to clarify that the order listed is an example, and entities have flexibility as to the order in which they present the notes. However, entities should also consider the effect on understandability and comparability when considering how the notes could be presented in a systematic manner.

Examples of systematic ordering or grouping of the notes include:

i) Giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
ii) Grouping together information about items measured similarly such as assets measured at fair value; or
iii) Following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, which is similar to the order listed in the extant paragraph 114.

Disclosure of accounting policies

HKAS 1 requires significant accounting policies to be disclosed and gives guidance about what a significant accounting policy could be. The existing guidance includes, as

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examples of significant accounting policies, the income tax accounting policy and the foreign currency accounting policy.

However, it has come to the attention of the International Accounting Standards Board that it is not helpful to provide the income tax accounting policy as an example. Being liable to income taxes is typical for many entities and it was not clear, from the example, what aspect of the entity's operations would make a user of financial statements expect an accounting policy on income taxes to be disclosed. Consequently, the existing example does not illustrate why such an accounting policy is significant. This line of thinking is also extended to the foreign currency accounting policy example. As a result, the income taxes and foreign currency examples have been deleted as part of the amendments to HKAS 1.

Presentation of items of other comprehensive income arising from equity accounted investments

HKAS 1 has been amended to clarify that entities should present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that:

i) Will not be reclassified subsequently to profit or loss; and
ii) Will be reclassified subsequently to profit or loss when specific conditions are met.

The implementation guidance has also been amended to reflect this clarification.

***Investment Entities: Applying the Consolidation Exception* (amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 *Investments in Associates and Joint Ventures*)**

HKFRS 10 exempts parent entities from preparing consolidated financial statements. One of the exemption criteria is that the entity's ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with HKFRS or IFRS.

In addition, HKFRS 10 prohibits parent entities that are investment entities from preparing consolidated financial statements and instead, requires them to measure their investment in a subsidiary at fair value through profit or loss. The issue was whether the consolidation exemption applies to a parent entity that is a subsidiary of an ultimate or any intermediate "investment entity" parent that does not consolidate its subsidiaries but measures them at fair value through profit or loss, assuming the other consolidation exemption conditions are met.

As a result, HKFRS 10 has been amended to confirm that the exemption from preparing consolidated financial statements in HKFRS 10 applies to a parent entity that is a subsidiary of an investment entity, even though the investment entity measures all its subsidiaries at fair value through profit or loss.

As HKAS 28 uses the same exemption criteria as HKFRS 10 to provide an exemption from applying the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures, consequential amendments as a result of the amendments to HKFRS 10 have also been made to HKAS 28.

The amendments to HKFRS 10 also include a clarification to the consolidation exemption. If a subsidiary that is not itself an investment entity and whose main purpose is to provide investment-related services or activities that relate to the "investment entity" parent, that investment entity parent is required to consolidate that subsidiary. If the subsidiary that provides investment-related services or activities is itself an investment entity, the investment entity parent shall measure that subsidiary at fair value through profit or loss.

Amendments have also been made to HKFRS 12 to clarify that the investment entity shall present the disclosures relating to investment entities required by HKFRS 12.

The amendments to HKAS 1, HKFRS 10, HKFRS 12 and HKAS 28 can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

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