



Hong Kong Institute of  
Certified Public Accountants  
香港會計師公會

# Technical Update on Accounting and Auditing Standards

*Presented by: Simon Riley*  
*Director, Standard Setting*

Event: 2012 SMP Symposium

Venue : The Mira Hong Kong

Date: 30 November 2012





# Standards for 2012 year-end

## Mandatory

1. Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
2. Amendments to HKFRS 1 *First-time Adoption of HKFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
3. Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

## Available for early adoption (significant standards)

4. HKFRS 10 *Consolidated Financial Statements*
5. HKFRS 11 *Joint Arrangements*
6. HKFRS 12 *Disclosure of Interests in Other Entities*
7. HKFRS 13 *Fair Value Measurement*



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# Deferred Tax: Recovery of Underlying Assets

## [Amendments to HKAS 12]

### Deferred tax: General principle

- Measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset



# Deferred Tax: Recovery of Underlying Assets

## [Amendments to HKAS 12]

### Issues:

- Application of the principle can be difficult or subjective: investment property is rented out to earn rental income and then subsequently sell it to gain from capital appreciation in the future, the carrying amount is recovered through use or through sale?
- In territories where the capital gains tax rate is different from the income tax rate. The tax implication can be different on gains and losses from the recovery of an asset through sale or from using the same asset
- Different tax base may be ascribed to the same asset recovered from sale or from use



## Deferred Tax: Recovery of Underlying Assets

### [Amendments to HKAS 12]

| Amendments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | When effective                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b><i>Deferred Tax: Recovery of Underlying Assets (Amendments to HKAS 12)</i></b></p> <ul style="list-style-type: none"><li>▪ A <b>rebuttable presumption</b> that deferred tax on <b>investment property</b> measured using the <b>fair value model</b> in HKAS 40 <i>Investment Property</i> should be determined on the basis that its carrying amount will be <b>recovered through sale</b></li><li>▪ A requirement that deferred tax on <b>non-depreciable assets</b>, measured using the revaluation model in HKAS 16 <i>Property, Plant and Equipment</i>, should always be measured on a <b>sale basis</b></li><li>▪ HK(SIC) Int 21 <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>, withdrawn</li></ul> | <p>An entity shall apply these amendments for annual periods beginning <b>on or after 1 January 2012</b>.</p> <p>Earlier application is permitted.</p> <p><b>Applied retrospectively</b> in accordance with HKAS 8, except if retrospective application is impracticable</p> |



## Deferred Tax: Recovery of Underlying Assets [Amendments to HKAS 12]

### What are the impacts?

- Deferred taxes on investment properties located in Hong Kong is determined based on the tax consequences through sale if the carrying amount of the investment property is recovered through sale is not rebutted
- No capital gain tax in Hong Kong, therefore, no need to provide deferred tax on fair value gains and losses



## Deferred Tax: Recovery of Underlying Assets [Amendments to HKAS 12]

### Can the presumption be rebutted?

- The presumption can be **rebutted** if the investment property is **depreciable** and is held within a business model whose objective is to **consume substantially all of the economic benefits** embodied in the investment property over time, rather than through sale



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## Deferred Tax: Recovery of Underlying Assets [Amendments to HKAS 12]

### Does it mean that the fair value gains is always nil?

- For entities subject to Hong Kong tax, recovery of investment property through sale does not necessarily mean that the deferred tax liability on fair value gains is nil
  - **Need to consider the possible claw back** of previously granted tax allowances in respect of the property





## Deferred Tax: Recovery of Underlying Assets [Amendments to HKAS 12]

**Does the amendment extend to fair value adjustments for investment property acquired in a business combination?**

- The presumption also **applies** when a deferred tax arises from measuring investment property **in a business combination** if the entity will **use the fair value model for subsequent measurement**
- If the investment properties are subsequently measured using the cost model, the presumption would not apply



## Deferred Tax: Recovery of Underlying Assets [Amendments to HKAS 12]

### Further considerations (cont.)

#### Impact on deferred tax assets

- Applying the presumption does not change the principles to be adopted when recognising and measuring deferred tax assets
- The amendment is likely to reduce significantly deferred tax liabilities
- The entity might need to reconsider the recoverability of the entity's deferred tax assets due to the changes in the nature and amount of deferred tax liabilities



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | When effective                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="162 505 977 544"><b><u>HKFRS 10</u> Consolidated Financial Statements</b></p> <ul data-bbox="162 596 1126 811" style="list-style-type: none"><li data-bbox="162 596 1126 811">▪ Introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities')</li></ul> | <p data-bbox="1172 505 1518 676">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | When effective                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="160 505 981 544"><b><u>HKFRS 10</u> Consolidated Financial Statements</b></p> <ul data-bbox="160 596 1130 1118" style="list-style-type: none"><li data-bbox="160 596 1130 811">▪ The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements</li><li data-bbox="160 861 1130 1118">• Control is based on whether an investor has:<ul data-bbox="185 911 1062 1118" style="list-style-type: none"><li data-bbox="185 911 653 943">➤ <b>Power over the investee</b></li><li data-bbox="185 951 1062 1032">➤ <b>Exposure, or rights, to variable returns from its involvement with the investee, and</b></li><li data-bbox="185 1039 1062 1118">➤ <b>The ability to use its power over the investee to affect the amount of the returns</b></li></ul></li></ul> | <p data-bbox="1174 505 1522 675">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | When effective                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="160 505 981 544"><b><u>HKFRS 10</u> Consolidated Financial Statements</b></p> <ul data-bbox="160 596 1087 943" style="list-style-type: none"><li data-bbox="160 596 1087 943">▪ <b>Note:</b> Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: HKFRS 10 <i>Consolidated Financial Statements</i>, HKFRS 11 <i>Joint Arrangements</i>, HKFRS 12 <i>Disclosure of Interests in Other Entities</i>, HKAS 27 <i>Separate Financial Statements</i> (2011) and HKAS 28 <i>Investments in Associates and Joint Ventures</i> (2011)</li></ul> | <p data-bbox="1174 505 1522 676">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



# Consolidated Financial Statements [HKFRS 10]

## Requirements of the Standard

Uses the concept of '**Control**' as the determining factor in assessing whether an investee is a subsidiary. In clear cut situations, an investor that holds a majority of voting rights by means of equity shares, in the absence of any other factors, controls the investee

Control involves three elements: (i) **Power over the investee**, (ii) **exposure, or rights, to variable returns** from involvement with the investee; and (iii) the ability to **use power over the investee to affect** the amount of the investor's returns

For more complex scenarios, more judgment may be required based on specific facts and circumstances



# Consolidated Financial Statements [HKFRS 10]

## Requirements of the Standard

The 1<sup>st</sup> element - ... whether the investor has **power over the investee**, i.e. whether the investor has existing rights that give it the **current ability** to direct the '**relevant activities**' of the investee

Extensive application guidance is provided to determine whether an investor has power over an investee in complex scenarios



# Consolidated Financial Statements [HKFRS 10]

## Requirements of the Standard

Situations that merit particular attention which may lead to a change of treatment from that applied under HKAS 27(2008), include:

- **'De facto' Control** - when an investor with less than 50% of the voting rights has control of the investee for reasons other than contractual arrangements and potential voting rights
- **Potential voting rights** – does not limit potential voting rights to those that are currently exercisable or convertible
- **Structured entities** - when an entity is designed so that voting rights are not the dominant factor in deciding who controls the entity
- **Agency relationships**
- **When a portion of an investee should be deemed to be a separate entity**





## Consolidated Financial Statements [HKFRS 10]

### Requirements of the Standard

The 2<sup>nd</sup> element control - ... **Variable returns** is relatively straightforward. The term 'returns' should be interpreted broadly and can encompass synergistic returns and direct returns

The 3<sup>rd</sup> element of control - ... **whether an investor is able to use its power to affect** the amount of variable returns is often relatively straightforward

Careful judgment required in circumstances whether the investor be regarded as **a principal or as an agent**

The Standard provides detailed guidance and several examples to illustrate the factors to be considered



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | When effective                                                                                                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="162 505 707 544"><b><u>HKFRS 11</u> <i>Joint Arrangements</i></b></p> <ul data-bbox="162 594 1132 901" style="list-style-type: none"><li data-bbox="162 594 967 632">▪ Replaces HKAS 31 <i>Interests in Joint Ventures</i></li><li data-bbox="162 682 1132 901">▪ Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement</li></ul> | <p data-bbox="1174 505 1518 675">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | When effective                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="208 474 757 511"><u>HKFRS 11</u> <i>Joint Arrangements</i></p> <p data-bbox="216 565 1136 639">Joint arrangements are either <b>joint operations</b> or <b>joint ventures</b>:</p> <ul data-bbox="216 696 1174 1002" style="list-style-type: none"><li data-bbox="216 696 1174 1002">• A <b>joint operation</b> is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) <b>have rights to the assets, and obligations for the liabilities</b>, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)</li></ul> | <p data-bbox="1221 474 1568 645">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



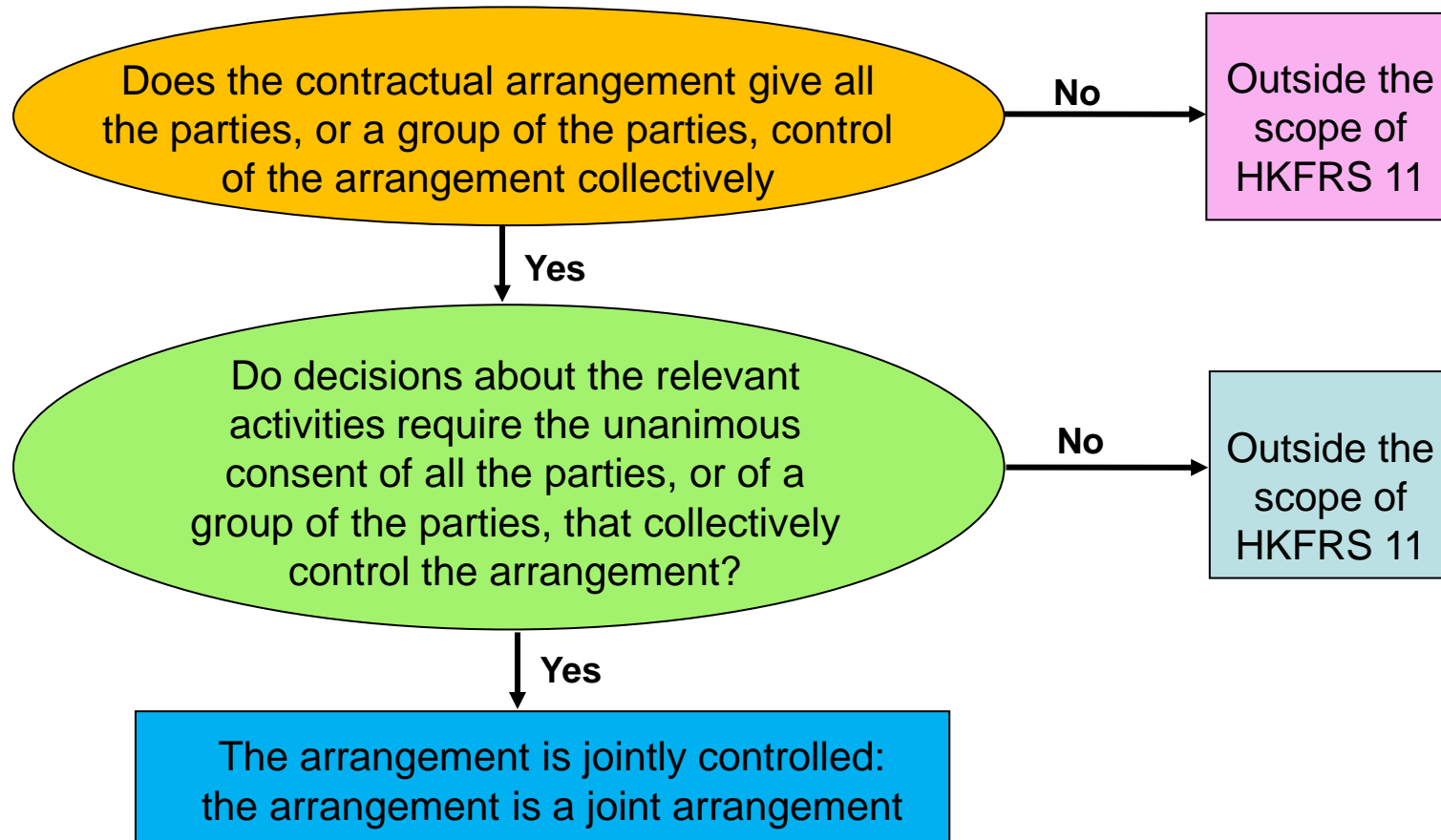
## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | When effective                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="208 471 757 511"><b><u>HKFRS 11</u> <i>Joint Arrangements</i></b></p> <ul data-bbox="208 564 1182 999" style="list-style-type: none"><li data-bbox="208 564 1182 863">▪ A <b>joint venture</b> is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have <b>rights to the net assets of the arrangement</b>. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with HKAS 28 <i>Investments in Associates and Joint Ventures</i> (2011)</li><li data-bbox="208 921 1182 999">▪ Use of <b>'proportionate consolidation'</b> to account for joint ventures is not permitted</li></ul> | <p data-bbox="1221 471 1568 642">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



# Joint Arrangements [HKFRS 11]

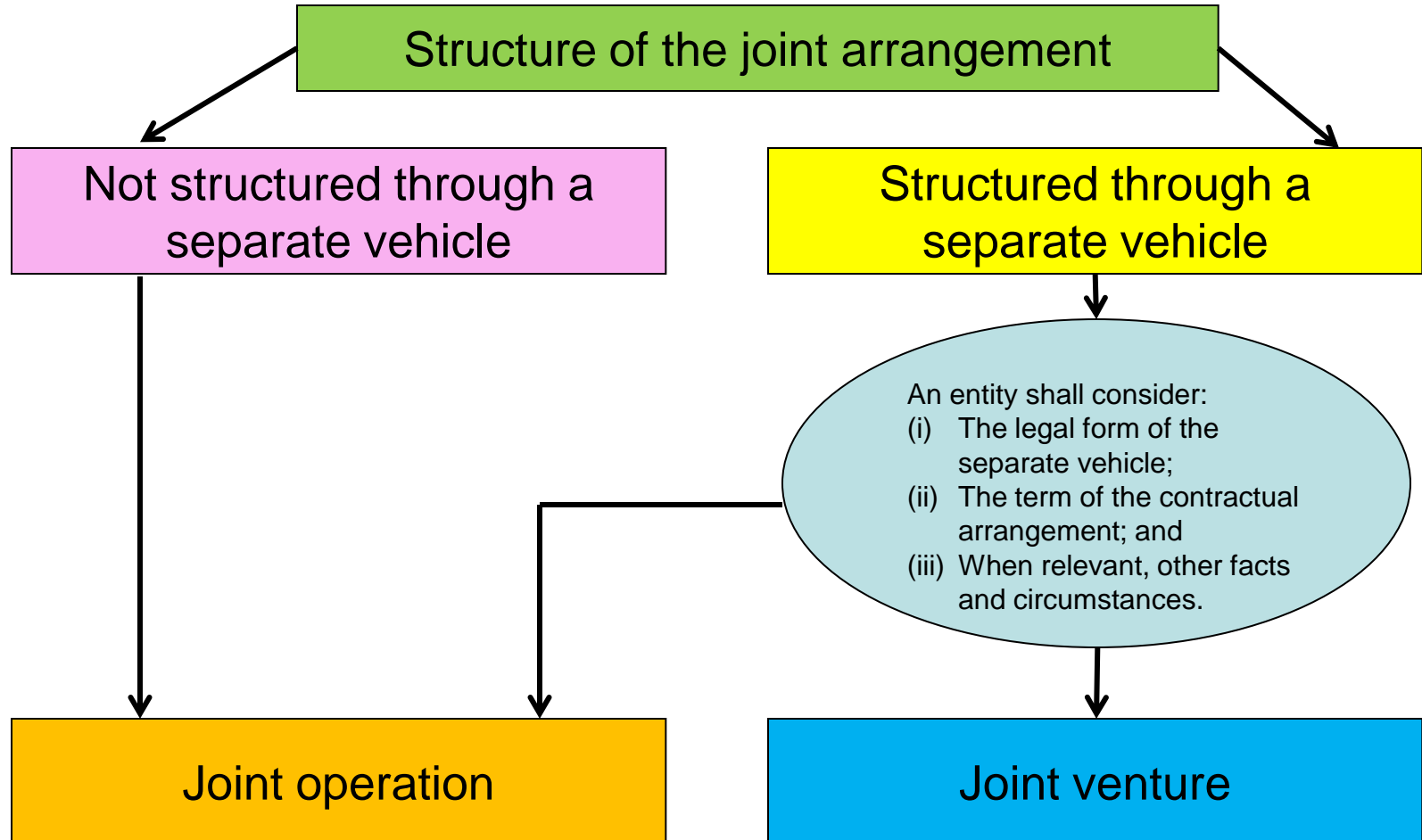
## Assessing joint control





# Joint Arrangements [HKFRS 11]

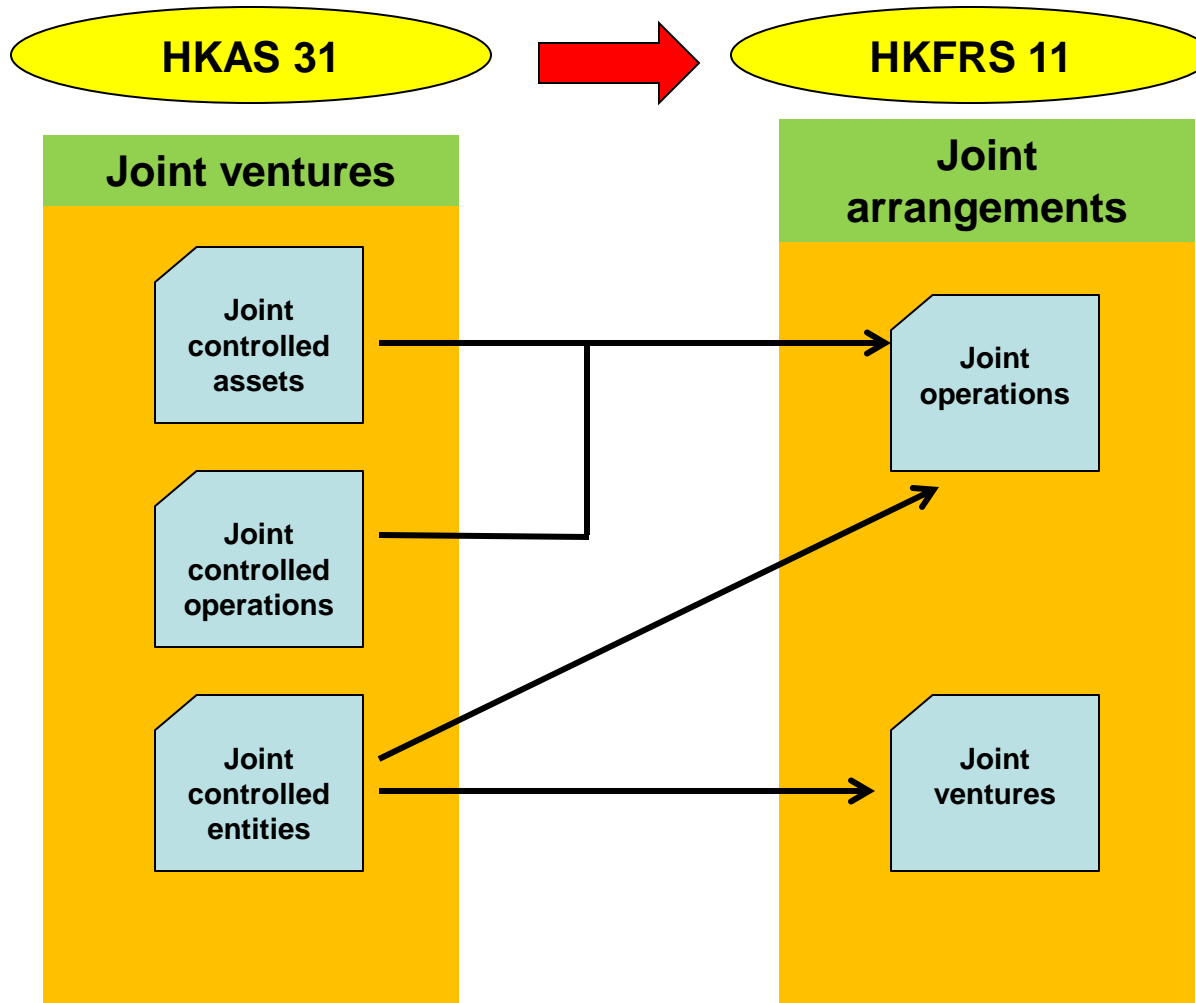
## Classification of a joint arrangement





# Joint Arrangements [HKFRS 11]

## Main change from HKAS 31





## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | When effective                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="208 521 1110 559"><b><u>HKFRS 12</u> <i>Disclosure of Interests in Other Entities</i></b></p> <ul data-bbox="208 654 1130 871" style="list-style-type: none"><li data-bbox="208 654 1130 871">▪ Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.</li></ul> | <p data-bbox="1219 521 1568 692">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |





| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | When effective                                                                                                   |
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| <p data-bbox="195 446 1093 482"><b><u>HKFRS 12</u> <i>Disclosure of Interests in Other Entities</i></b></p> <p data-bbox="195 536 1213 618">The required disclosures are grouped into the following broad categories:</p> <ul data-bbox="195 668 1255 1368" style="list-style-type: none"><li data-bbox="195 668 1255 793">• <b>Significant judgments and assumptions</b> - such as how control, joint control, significant influence has been determined</li><li data-bbox="195 793 1255 982">• <b>Interests in subsidiaries</b> - including details of the structure of the group, risks associated with consolidated structured entities and consequences of changes in a parent's ownership interest</li><li data-bbox="195 982 1255 1156">• <b>Interests in joint arrangements and associates</b> - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)</li><li data-bbox="195 1156 1255 1368">• <b>Interests in unconsolidated structured entities</b> - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities</li></ul> | <p data-bbox="1290 446 1561 704">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |

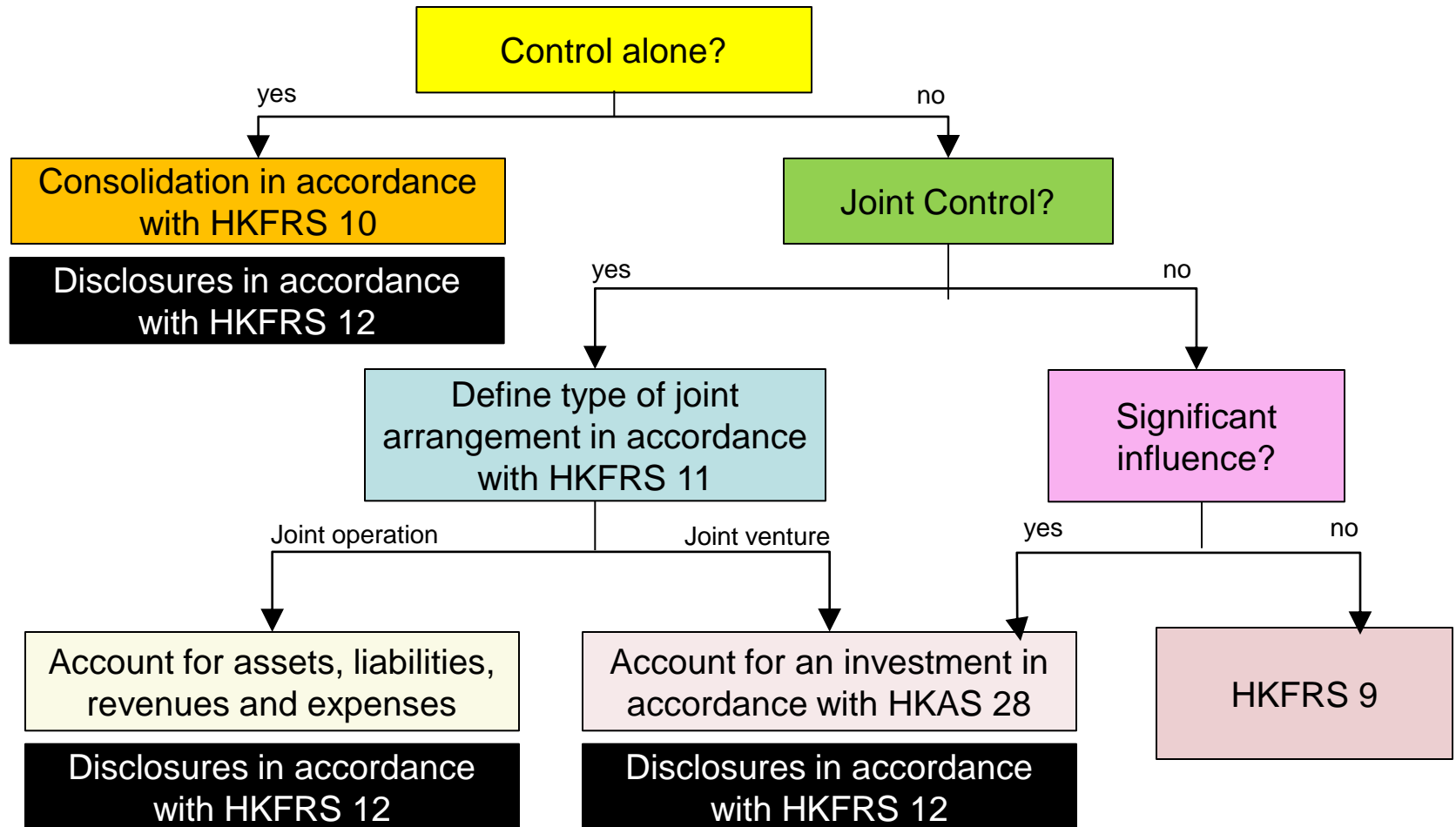


## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | When effective                                                                                                   |
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| <p data-bbox="160 446 1062 486"><b>HKFRS 12</b> <i>Disclosure of Interests in Other Entities</i></p> <p data-bbox="160 536 1203 665">Specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required</p> <p data-bbox="160 715 1222 1150"><b>Note:</b> Entities are <u>encouraged to voluntarily provide the information required by HKFRS 12 prior to its adoption</u> providing some of the disclosures required by HKFRS 12 does <b>not</b> compel an entity to comply with all of the requirements of the HKFRS or to also apply the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: HKFRS 10 <i>Consolidated Financial Statements</i>, HKFRS 11 <i>Joint Arrangements</i>, HKAS 27 <i>Separate Financial Statements</i> (2011) and HKAS 28 <i>Investments in Associates and Joint Ventures</i> (2011).</p> | <p data-bbox="1253 446 1528 704">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## Interaction between HKFRSs 10, 11, 12 and HKAS 28





## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | When effective                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="162 448 1161 572"><b><i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i></b></p> <ul data-bbox="162 625 1193 1065" style="list-style-type: none"><li data-bbox="162 625 1193 896">▪ Amends HKFRS 10 <i>Consolidated Financial Statements</i>, HKFRS 11 <i>Joint Arrangements</i> and HKFRS 12 <i>Disclosure of Interests in Other Entities</i> to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period</li><li data-bbox="162 936 1193 1065">▪ Amendments to HKFRS 11 and HKFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period</li></ul> | <p data-bbox="1255 448 1528 705">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | When effective                                                                                                   |
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| <p data-bbox="162 448 510 482"><b><i>Investment Entities</i></b></p> <ul data-bbox="162 539 1207 796" style="list-style-type: none"><li data-bbox="162 539 1207 796">▪ Amends HKFRS 10 <i>Consolidated Financial Statements</i>, HKFRS 12 <i>Disclosure of Interests in Other Entities</i> and HKAS 27 <i>Separate Financial Statements</i> (2011) that where an entity qualifies as an 'investment entity', it does not consolidate its subsidiaries but measures its investments at fair value</li></ul> | <p data-bbox="1257 448 1528 705">Applicable to annual reporting periods beginning on or after 1 January 2014</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | When effective                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="144 518 774 554"><b>HKFRS 13</b> <i>Fair Value Measurement</i></p> <ul data-bbox="144 608 1112 1176" style="list-style-type: none"><li data-bbox="144 608 1112 758">▪ Replaces the guidance on fair value measurement in existing HKFRS accounting literature with a single standard</li><li data-bbox="144 782 1112 868">▪ Joint efforts by the IASB and FASB to develop a converged fair value framework</li><li data-bbox="144 919 1112 1043">▪ <b>Defines</b> fair value, provides guidance on <b>how to determine fair value</b> and <b>requires disclosures about fair value measurements</b></li><li data-bbox="144 1095 1112 1176">▪ HKFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value</li></ul> | <p data-bbox="1157 518 1503 689">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | When effective                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="160 505 792 542"><b><u>HKFRS 13</u> <i>Fair Value Measurement</i></b></p> <ul data-bbox="160 596 1130 1078" style="list-style-type: none"><li data-bbox="160 596 511 634">▪ HKFRS 13 applies:</li><li data-bbox="189 686 1105 896">▪ When another HKFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements)</li><li data-bbox="189 949 1130 1078">▪ The standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs (with some exceptions)</li></ul> | <p data-bbox="1174 505 1522 676">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |



## New or revised standards

| New or revised pronouncement                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | When effective                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <p data-bbox="162 496 792 535"><b><u>HKFRS 13</u> Fair Value Measurement</b></p> <p data-bbox="162 586 821 625">Three level of fair value measurements:</p> <div data-bbox="144 648 1136 825" style="border: 2px solid red; padding: 5px;"><p data-bbox="162 675 1052 801"><b>Level 1</b> - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date</p></div> <div data-bbox="144 829 1136 1006" style="border: 2px solid red; padding: 5px;"><p data-bbox="162 853 1110 979"><b>Level 2</b> - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly</p></div> <div data-bbox="144 1011 1136 1099" style="border: 2px solid red; padding: 5px;"><p data-bbox="162 1035 1043 1073"><b>Level 3</b> - unobservable inputs for the asset or liability</p></div> <p data-bbox="162 1120 1116 1289">Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified</p> | <p data-bbox="1155 496 1503 665">Applicable to annual reporting periods beginning on or after 1 January 2013</p> |





## Fair Value Measurement [HKFRS 13]

### Key points that you need to know.....

#### Definition of fair value and key principles

- **New definition of fair value**
  - 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
  - Exit price

#### Measurement

- **Fair value measurement requirement – How to apply in different situations:**
  - **Non-financial assets**
    - Highest and best use
  - **Liabilities and an entity's own equity instruments**
    - Quoted prices are used if available, if not, then quoted prices for an identical item held as an asset are used before resorting to other valuation techniques



## Fair Value Measurement [HKFRS 13]

### Key points that you need to know.....

| Valuation techniques                                                                                                                     | Disclosures                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>▪ <b>The three valuation approaches: Market approach, Income approach, Cost approach</b></li></ul> | <ul style="list-style-type: none"><li>▪ <b>Disclosures requirements</b><ul style="list-style-type: none"><li>– extended to non-financial assets and liabilities measured at fair value</li></ul></li></ul> |

# Recent developments in the Hong Kong Auditing and Assurance framework and pronouncements

- Updated Local Pronouncements
- New/Updated IAASB Pronouncements
- Amended Preface



# Updated Local Pronouncements

The AASC has issued the following updated local pronouncements:

- PN 600.1 "Reports by the Auditor under the Hong Kong Companies Ordinance"
- PN 830 "Reports by the Auditor under the Banking Ordinance"
- Circular on Audit of Schools

The above are available on the Members' Handbook and HKICPA website



# Updated Local Pronouncements (cont'd)

## EDs in the pipeline

- PN 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal"
- PN 620.2 (Revised) "Communications between the auditor and the Insurance Authority"
- PN 810.1 (Revised) "Insurance Brokers – Compliance with the Minimum Requirements Specified by the Insurance Authority under Sections 69(2) and 70(2) of the Insurance Companies Ordinance"
- PN 810.2 (Revised) "The Duties of the Auditor under the Insurance Companies Ordinance and Other Reporting"
- PN 860.1 (Revised) "The Audit of Retirement Schemes"



# New/Updated IAASB Pronouncements

To date, the AASC has issued the following new/updated pronouncements converged with IAASB pronouncements:

## *With Immediate Effect*

- Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements
- HKAPG 1000 "Special Considerations in Auditing Financial Instruments"

## *Effective for reports dated on or after 1 July 2013*

- HKSRS 4410 (Revised) "Compilation Engagements"



# New/Updated IAASB Pronouncements (cont'd)

Effective for service auditors' assurance reports covering periods ending on or after 30 September 2013

- HKSAE 3410 "Assurance Engagements on Greenhouse Gas Statements"

Effective for audits of financial statements covering periods ending on or after 15 December 2013

- HKSA 315 (Revised) "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment "
- HKSA 610 (Revised) "Using the Work of Internal Auditors"



# New/Updated IAASB Pronouncements (cont'd)

Pronouncements currently in the pipeline:

- HKSAE 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus"
- HKSRE 2400 (Revised) "Engagements to Review Historical Financial Statements"

We will keep members posted of the latest developments, through our usual means of communication



# Amended Preface

- The amended "Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements" was issued to converge with the amended International Preface
- The key change is the classification of pronouncements into "authoritative" and "non-authoritative"
- The IAASB withdrew a category of pronouncements known as International Auditing Practice Statements (IAPSs) and established a new category of non-authoritative documents — International Auditing Practice Notes (IAPNs)
- In the past, IAPSs were adopted in Hong Kong as Practice Notes (PN). We have now withdrawn all PN equivalents of IAPSs



# Amended Preface (cont'd)

- IAPNs do not impose additional requirements on auditors beyond those included in the ISAs
- They do not change the auditor's responsibility to comply with all ISAs relevant to an audit
- IAPNs provide practical assistance to auditors
- They are intended to be disseminated by those responsible for setting national standards, or used in developing corresponding national material
- They also provide material that firms can use in developing their training programs and internal guidance
- The AASC has resolved to adopt IAPNs in Hong Kong as Hong Kong Auditing Practice Guidance (HKAPG)



# Amended Preface (cont'd)

Authoritative pronouncements include:

- Hong Kong Standards on Quality Control (HKSQCs)
- Hong Kong Framework for Assurance Engagements
- Hong Kong Standards on Auditing (HKSAAs)
- Hong Kong Standards on Review Engagements (HKSREs)
- Hong Kong Standards on Assurance Engagements (HKSAEs)
- Hong Kong Standards on Investment Circular Reporting Engagements (HKSIRs)
- Hong Kong Standards on Related Services (HKSRSs)
- Auditing Guidelines
- Practice Notes



# Amended Preface (cont'd)

Non - authoritative pronouncements include:

- Practice Guidance (equivalent of IAASB's Practice Notes)
- Auditing and Assurance Technical Bulletins
- Circulars
- Staff publications



# Questions Comments Discussion



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