

## 7<sup>th</sup> IFRS Regional Policy Forum – A Journey to Better Financial Reporting

### Panel Discussion 6

#### Challenges in strengthening the financial reporting regulatory framework of listed entities

Steve Ong, FCA, FCPA  
Vice President, Head of Accounting Affairs, Listing Department  
Hong Kong Exchanges and Clearing Limited

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## Disclaimer

The materials included in this presentation are intended to provide general information and guidance only.

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## Panel discussion theme

- The recent global financial crisis reminded us of the strong interconnection of capital markets around the world, and the **importance of high quality financial reporting**.
- This session will discuss how the national and international regulators enforce the **consistent application of IFRS** domestically and globally, and the future challenges for regulators in the current economic environment.

3

## Hong Kong Stock Exchange Listing Rule

- MBLR 2.01 — The principal function of the Exchange is to provide a **fair, orderly and efficient** market for the trading of securities.
- Annual accounts of a listed issuer are required, to conform with:—
  - (a) Hong Kong Financial Reporting Standards (HKFRS); or
  - (b) International Financial Reporting Standards (IFRS).
- HKFRS is identical to IFRS.

HKEx takes great interest in ensuring consistent application of HKFRS/IFRS and each year perform a HKEx Financial Statements Review Programme

4

## Themes

### Industry theme and Accounting theme

- For each year's FSRP, we have different themes
- Themes have included:-

<i><b>FSRP Year</b></i>	<i><b>Industry theme</b></i>	<i><b>Accounting theme</b></i>
2012/2013	Power and utilities	Impairment of Assets (IAS 36)
2011/2012	Telecommunications and internet companies	Goodwill and intangible assets (IAS 38)
2010/2011	Property companies	Segment reporting (IFRS 8)
2009/2010	Mining activities	Financial instruments (IAS 39)
2008/2009	Toll road infrastructure facilities	Business combinations (IFRS 3)

All reports can be accessed the HKEx website at:  
<http://www.hkex.com.hk/eng/rulesreg/listrules/listguid/guidance5.htm>

5

## Joint efforts by Hong Kong Regulators

- Hong Kong Financial Reporting Council and HKICPA also review financial statements of listed companies
- Together we review approximately 20% of financial statements of listed companies each year
- Joint Annual HKFRS/IFRS Forum held in November each year for auditors and preparers of listed companies

6

## Some Food for Thought

(1) For Regulators:	Be Firm But Fair
(2) For Standard Setters:	Be Persistent, Persevere and be persuasive in your lobbying with IASB
(3) For Preparers and Board of Directors:	<ul style="list-style-type: none"><li>• Remember your duties and responsibilities under Listing Rules</li><li>• Master your IFRS/HKFRS and leverage on global expertise</li></ul>
(4) For Auditors:	Master your IFRS/HKFRS and leverage on global expertise

7

## Points to discuss – Sharing of experience

1. 3 Hong Kong issues that preparers had to bear the pain on adoption of HKFRS/IFRS in 2005 until the IASB helped to resolve for Hong Kong
  - Related partly disclosure (IAS 24) (Revised Issued November 2009)
  - Provision for deferred taxation on investment property (IAS 12) (Revised December 2010)
  - Revaluation as deemed cost in an IPO (IFRS 1) (Revised 2011)
2. HSBC true and fair override of IAS 32 – Right Issue (2009)
3. Toll roads (Issue to IFRIC) – Depreciation methods
4. IFRIC 15 – Agreements for the Construction of Real Estate
5. Non-GAAP disclosures

8

## Points to discuss – Sharing of experience

6. Hong Kong Interpretation 5 – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause (Para 69(d) of IAS 1)  
[http://app1.hkicpa.org.hk/ebook/HKSA\\_Members\\_Handbook\\_Master/volumell/hk-int5.pdf](http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumell/hk-int5.pdf)
7. HKEx Guidance for Regulatory Purposes – IAS 41 – Agriculture  
<http://www.hkex.com.hk/eng/rulesreg/listrules/listguid/Documents/gl46-12.pdf>
8. HKEx Guidance for Regulatory Purposes – IFRS 10 – Consolidated Financial Statements  
<http://www.hkex.com.hk/eng/rulesreg/listrules/listletter/Documents/20130301.pdf>

9

## Points to discuss – Sharing of experience

9. IFRS 3 on Business Combinations and AG 5 – Merger Accounting for Common Control Combinations  
[http://app1.hkicpa.org.hk/hksaebk/HKSA\\_Members\\_Handbook\\_Master/volumell/ag5.pdf](http://app1.hkicpa.org.hk/hksaebk/HKSA_Members_Handbook_Master/volumell/ag5.pdf)
10. MOU between the 4 Hong Kong Regulators:-
  - Securities and Futures Commission
  - Financial Reporting Council
  - HKICPA
  - HKEX

TOGETHER WE REGULATE EFFECTIVELY TO  
ENSURE CONSISTENT APPLICATION OF  
IFRS/HKRS

10

## Conclusions

In Hong Kong, we ensure through proper due process that all local guidance (if necessary) on IFRS are not local interpretations of IFRS but merely clarifications. We check to ensure absolute no conflicts with IFRS literature.

**HONG KONG HAS AN OPEN AND TRANSPARENT  
REGULATORY SYSTEM TO ENSURE CONSISTENT  
APPLICATION OF IFRS/HKFRS**