



2011 Update to Joint Declaration (10 April 2012)

As reported in the last update dated 7 December 2010

http://www.hkicpa.org.hk/file/media/section6_standards/technical_resources/pdf-file/mainland-standards-convergence/financial-reporting-standards/joint-declaration-updates-2010-12.pdf, there were three standard differences between China Accounting Standards for Business Enterprises (CASBE) and Hong Kong Financial Reporting Standards (HKFRS), which relate to reversal of asset impairment, insurance contract acquisition costs and provision for safety fund. These differences remain and primarily arose from CASBE adopting a more prudent approach than HKFRS which is identical to International Financial Reporting Standards (IFRS) that embraces the concept of neutrality over prudence.

Developments in resolving these differences have been slower than planned due to delays in key projects at the International Accounting Standards Board (IASB). The reversal of asset impairment and the provision for safety fund will be carefully considered within the IASB's ongoing development of the conceptual framework and the difference on the insurance contract acquisition costs will be considered with reference to the IASB's insurance project currently considered by the IASB/US Financial Accounting Standards Board.

In 2011, the China Ministry of Finance (MoF) released another batch of revision to its CASBE Explanatory Guidance to update disclosure requirements in CASBE with the new HKFRS/IFRS.

The Institute has carried out an analysis of the 2010 A&H financial statements for the year ended 31 December 2010. It was noted that some companies have early adopted the amendments to IFRS/HKFRS 1 *First-time Adoption of IFRSs/HKFRSs* on "Revaluation in an IPO as deemed cost", which was included in the IASB's *Improvements to IFRSs 2010*. This allows a first-time adopter to use an event-driven fair value as deemed cost. Entities that adopted HKFRS/IFRS in previous periods are permitted to apply the amendment retrospectively in the first annual period after the amendment is effective. This amendment resolved one of the key reconciliation implementation differences between A&H financial statements.

In a recent analysis of A&H financial statements published by MoF from 2007 to 2010, it is noted that differences in net income and net assets have decreased from 4.69% to 0.33% and 2.84% to 0.01%, respectively. It demonstrates the determination by MoF and the Institute to eliminate any reconciliation differences pursuant to the signing of the Joint Declaration on convergence of CASBE and HKFRS.

Following the amendments of the Listing Rules of the Hong Kong Exchanges and Clearing Limited (HKEx) in December 2010, four Hong Kong-listed Mainland companies opted to appoint Mainland auditors and prepared their 2010 financial statements in accordance with CASBE. These financial statements were included in the respective financial statements review programmes of the Institute, the HKEx and the Financial Reporting Council. The HKEx's Financial Statements Review Programme Report 2011 reported that for those selected in the 2011 review, HKEx was pleased to note that although some disclosures were omitted, they were not material to the financial statements as a whole and the issuers confirmed that the required disclosures will be rectified in their future annual reports.



In order to maintain the ongoing convergence between CASBE and HKFRS, MoF originally had a plan to start the overhaul of the CASBE system in 2010 and targeted to complete the exercise by 2011. However, the overhaul of the CASBE system was put on hold due to the delay of the IASB's four key projects. All parties are aware that CASBE is not identical to HKFRS/IFRS due to different standard setting policies and procedures. Furthermore, standard convergence is not static but an ongoing process. The Institute will continue to work with MoF on the ongoing convergence between CASBE and HKFRS.