Risk & Quality

Achieving Dual Compliance

The hurdles of complying with both HKFRS and IFRS

Preface

The Securities and Exchange Commission ("SEC") adopted rules in December 2007 to allow foreign private issuers to file financial statements with the SEC prepared in accordance with International Financial Reporting Standards (IFRS) "as issued by the IASB" without including a reconciliation to Generally Accepted Accounting Principles in the United States ("US GAAP"). The requirement for the financial statements to be prepared in accordance with IFRS "as issued by the IASB" prevents filers using national standards that have converged with IFRS, including Hong Kong Financial Reporting Standards (HKFRS).

There may be circumstances, therefore, in which an entity that prepares financial statements in accordance with HKFRS wishes to refer to compliance with both HKFRS and IFRS ("dual compliance") in order to benefit from the SEC's relief; this publication addresses some of the issues that an entity may face.

You may find this publication useful in helping you to:

a. understand why there may be differences between financial statements prepared in accordance with HKFRS and those prepared in accordance with IFRS, notwithstanding that HKFRS converged with IFRS from 1 January 2005;

b. identify key differences between financial statements prepared in accordance with HKFRS and those to which IFRS 1 has been applied upon first time adoption of IFRS, with 1 January 2006 as the date of transition†; and

c. understand the options available to some entities that may enable dual compliance with both HKFRS and IFRS to be achieved.

This publication does not address other matters relevant to the SEC's elimination of the US GAAP reconciliation for certain IFRS filers. Additional information can be found in:

- Dataline 2007-22: SEC votes to eliminate US GAAP reconciliation requirement for certain private issuers: http://www.cfodirect.pwc.com
- Final rule issued on 21 December 2007: http://www.sec.gov/rules/final/2007/33-8879.pdf

†With certain exceptions, financial statements filed with the SEC generally requires three years of statement of income, changes in shareholders' equity and cash flows. The amended rules extend indefinitely the accommodation to allow first-time adopters of IFRS as issued by the IASB to file two years of the above referenced statements. Accordingly, an entity that wants to take advantage of the SEC's relief for its 2007 20-F, assuming it has a 31 December year end, may adopt IFRS as issued by the IASB with a date of transition of 1 January 2006.

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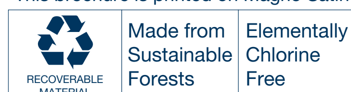

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How to use this publication

This publication aims to provide guidance for existing HKFRS preparers that wish to assert compliance with both HKFRS and IFRS in their consolidated financial statements for the year ended 31 December 2007. This publication has been prepared on the assumption that these financial statements will contain one year of comparatives, such that 1 January 2006 would represent the date of transition to IFRS in accordance with IFRS 1 – "First-time Adoption of International Financial Reporting Standards". Transitional differences will differ for other periods and hence further analysis would need to be performed and alternative conclusions may be reached. Equally, additional considerations would be necessary for separate financial statements including, inter alia, the accounting for investments in subsidiaries, associates and jointly controlled entities.

The following analysis highlights certain possible differences in financial information that might commonly arise between existing HKFRS preparers that adopted the transitional provisions of the respective HKFRSs on 1 January 2005 (or date of application, if later) and a first-time adopter of IFRS for the year ended 31 December 2007. This publication takes account of authoritative pronouncements issued under IFRS and HKFRS up to 31 December 2007 that were effective for financial year ended 31 December 2007.

While every effort has been made to ensure the accuracy of information contained in this publication, such information may not be complete; some information may have been omitted that may be relevant to a particular reader. Accordingly, this publication may not include all potential differences that could arise in a particular situation. In addition, there is no guarantee that HKFRS and IFRS will not diverge in the future as pronouncements are amended, added or withdrawn under either framework. This publication is not intended to cover all aspects of HKFRS or IFRS 1, or to represent a substitute for reading the relevant Standards and Interpretations.

A first-time adopter of IFRS must comply with the disclosure requirements of IFRS 1 in its first IFRS financial statements. We recommend that readers refer to our publications "Adopting IFRS", which sets out the specific disclosures required by IFRS 1, and our IFRS Disclosure Checklist 2007.

No responsibility for loss to any person acting or refraining from acting as a result of any material in this publication will be accepted by PricewaterhouseCoopers. Recipients should not act on the basis of this guidance without seeking professional advice.

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Part I:
Potential areas of difference that may prevent dual compliance

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FINANCIAL INSTRUMENTS

Financial Assets and Liabilities

Derecognition

HKFRS

The derecognition requirements of HKAS 39 – "Financial Instruments: Recognition and Measurement" are the same as those contained in IAS 39. However the derecognition requirements are only applied to those transactions that occurred after the effective date of HKAS 39 (i.e. 1 January 2005). Accordingly, financial assets or financial liabilities that were derecognised prior to the adoption of HKAS 39 (1 January 2005) but that would not have met the HKAS 39 derecognition requirements were not restated on adoption of HKAS 39.

IFRS 1

A first-time adopter of IFRS must apply the derecognition requirements of IAS 39 prospectively for transactions occurring on or after 1 January 2004. Accordingly, financial assets or financial liabilities that were derecognised under previous GAAP subsequent to 1 January 2004 but that would not have met the IAS 39 derecognition requirements, would need to be included in the entity's transitional balance sheet.

An entity may apply the derecognition requirements in IAS 39 retrospectively from an earlier date of the entity's choosing, provided that the information needed to apply those derecognition requirements to earlier transactions was obtained at the time of the initial accounting.

DIFFERENCE

Derecognition transactions that occurred between 1 January 2004 and 1 January 2005 under previous HK GAAP may not have been accounted for using principles that were consistent with IAS 39. Accordingly, any financial assets/financial liabilities that were derecognised in 2004 that neither met the derecognition requirements of IAS 39 in 2004, nor met them in 2005 prior to transition to IFRS, would need to be included in the transitional balance sheet at 1 January 2006 under IFRS, giving rise to a difference relative to HKFRS. It is also possible, though perhaps less likely, that financial assets or financial liabilities may not have been derecognised in 2004 under HK GAAP, yet would have been derecognised under IAS 39, thereby giving rise to a further difference.

REFERENCES HKAS39.104(h), IFRS1.27 & 27A

Fair value hedge accounting

HKFRS

At the beginning of the financial year in which HKAS 39 was initially applied (1 January 2005), any balance sheet positions regarding assets and liabilities that were hedged items in fair value hedges were adjusted by an amount equal to the fair value of the hedging instrument at that date.

IFRS 1

On first time adoption of IFRS, the carrying amount of a hedged item in a fair value hedge is adjusted at the date of transition to IFRSs. This adjustment is the lower of:

- that portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognised under previous GAAP; and
- that portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, under previous GAAP, was either (i) not recognised or (ii) deferred in the balance sheet as an asset or liability.

DIFFERENCE

Adjustments to be made to hedged items in a fair value hedge in accordance with the transitional provisions of HKAS 39 and application of IFRS 1 may differ, giving rise to potential differences between HKFRS and IFRS. These differences will continue to exist until the hedged items held at 1 January 2005 are extinguished, amortised or disposed.

REFERENCES HKAS39.104(e) and IFRS1.IG60A

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NON-FINANCIAL ASSETS

Leases

Hong Kong leasehold land

HKFRS	HK-Int 4 – "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases" requires the lease term for leasehold land in Hong Kong to be determined by reference to the legal form and status of the lease. A renewal of a lease may not be assumed unless the lessee has a renewal option and it is reasonably certain at the inception of the lease that the lessee will exercise that option. Options for extending the lease term that are not at the discretion of the lessee may not be taken into account by the lessee in determining the lease term. For example, lessees may not assume that the lease term of Hong Kong leasehold land will be extended automatically beyond 2047 to the extent that the HKSAR Government retains discretion as to whether or not to renew the lease. HK-Int 4 includes a transitional provision that permitted entities to adopt this interpretation either retrospectively or prospectively over the remaining lease term from the date of adoption of the Interpretation (24 May 2005).
IFRS 1	The requirements of IAS 17 – "Leases" are consistent with the treatment proposed by HK-Int 4. However, IFRS requires that this treatment be applied retrospectively.
DIFFERENCE	Measurement differences may arise if the adoption of HK-Int 4 represented a change in accounting policy and this change was applied prospectively.
REFERENCES	HK-Int4.13, IAS17.27

Property, plant and equipment

Depreciation method for infrastructure facilities

HKFRS	HK-Int 1 – "The Appropriate Policies for Infrastructure Facilities" allows infrastructure facilities classified as property, plant and equipment – for example, toll roads – to be depreciated using either a time-based (e.g. straight-line) or a usage-based (e.g. traffic flow) approach.
IFRS 1	In the absence of specific interpretations for infrastructure facilities, significant components of all property, plant and equipment should be identified and depreciated separately. Management should select the most appropriate depreciation method based on the expected pattern of consumption of future economic benefits so as to allocate the depreciable amount on a systematic basis over the asset's useful life. Significant components of infrastructure facilities classified as property, plant and equipment must have separate depreciation methods if the expected pattern of consumption is different. For example, the bitumen pavement of toll roads may be consumed based on traffic flow, while other components may have a time-based useful life for which the straight-line method may be more appropriate.
DIFFERENCE	Differences could arise for entities with infrastructure facilities classified as property, plant and equipment that adopt a usage-based approach for depreciating the entire asset rather than assessing the most appropriate method for each significant component.
REFERENCES	HK-Int1.5, IAS16.60

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NON-FINANCIAL ASSETS

Property, plant and equipment

Exchanges of assets

HKFRS	An item of property, plant and equipment may be acquired in exchange for another non-monetary asset or for a combination of non-monetary and monetary assets. The cost of such an acquired item should be measured at fair value unless: • the exchange transaction has no commercial substance; or • the fair value of neither the asset received nor the asset given up can be reliably measured. An entity is not allowed to restate the measurement of property, plant and equipment acquired from any exchange transactions entered into before 1 January 2005, and hence property, plant and equipment acquired in such an exchange transaction may not have been measured at fair value on initial recognition.
IFRS 1	All property, plant and equipment acquired in an exchange transaction meeting the above criteria regarding commercial substance and reliable measurement must be measured at fair value on initial recognition.
DIFFERENCE	Measurement differences could arise from exchange transactions that occurred prior to 1 January 2005 where the property, plant and equipment was not measured at fair value on initial recognition.
REFERENCES	HKAS16.80, IAS16.24

Exemption for charitable, government subvented and not-for-profit organisations

HKFRS	Charitable, government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits (e.g. trade associations, clubs and retirement schemes) that had previously taken advantage of the exemption under the Statement of Standard Accounting Practice (“SSAP”) 17 – “Property, Plant and Equipment” to not apply that standard to property, plant and equipment were allowed to deem the carrying amount on first application of HKAS 16 – “Property, Plant and Equipment” as the cost of such assets.
IFRS 1	There is no exemption for charitable, government subvented and not-for-profit organisations. All property, plant and equipment is measured at cost on initial recognition in accordance with the requirements of IAS 16.
DIFFERENCE	Measurement differences could arise for charitable, government subvented and not-for-profit organisations that have applied the exemption available on transition to HKAS 16.
REFERENCES	HKAS16.80B, IAS16.15

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NON-FINANCIAL ASSETS

Investment property – cost model

Exchanges of assets

HKFRS	An investment property may be acquired in exchange for another non-monetary asset or for a combination of non-monetary and monetary assets. The cost of such an acquired item should be measured at fair value unless: • the exchange transaction has no commercial substance; or • the fair value of neither the asset received nor the asset given up can be reliably measured. An entity is not allowed to restate the measurement of investment property acquired from any exchange transactions entered into before 1 January 2005, and hence investment property acquired in such an exchange transaction may not have been measured at fair value on initial recognition.
IFRS 1	All investment property acquired in an exchange transaction meeting the above criteria regarding commercial substance and reliable measurement must be measured at fair value on initial recognition.
DIFFERENCE	Measurement differences could arise from exchange transactions that occurred prior to 1 January 2005 where the investment property was not measured at fair value on initial recognition.
REFERENCES	HKAS40.84, IAS40.27

Exemption for charitable, government subvented and not-for-profit organisations

HKFRS	Charitable, government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits (e.g. trade associations, clubs and retirement schemes) that had previously taken advantage of the exemption under SSAP 13 – "Accounting for Investment Properties" to not apply that standard to investment property was allowed to deem the carrying amount on first application of HKAS 40 – "Investment Property" as the cost of such assets.
IFRS 1	There is no exemption for charitable, government subvented and not-for-profit organisations. All investment property is measured at cost upon initial recognition in accordance with the requirements of IAS 40.
DIFFERENCE	Measurement differences could arise for charitable, government subvented and not-for-profit organisations that have applied the exemption available on transition to HKAS 40.
REFERENCES	HKAS40.83B

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NON-FINANCIAL ASSETS

Intangible assets

Exchanges of assets

HKFRS

An intangible asset may be acquired in exchange for another non-monetary asset or for a combination of non-monetary and monetary assets. The cost of such an acquired item should be measured at fair value unless:

- the exchange transaction has no commercial substance; or
- the fair value of neither the asset received nor the asset given up can be reliably measured.

An entity is not allowed to restate the measurement of intangible assets acquired from any exchange transactions entered into before 1 January 2005, and hence intangible assets acquired in such an exchange transaction may not have been measured at fair value on initial recognition.

IFRS 1

All intangible assets acquired in an exchange transaction meeting the above criteria regarding commercial substance and reliable measurement must be measured at fair value on initial recognition.

DIFFERENCE

Measurement differences could arise from exchange transactions that occurred prior to 1 January 2005 where the intangible asset was not measured at fair value on initial recognition.

REFERENCES

HKAS38.45 & 131, IAS38.45 & 131

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INCOME STATEMENT

Revenue Recognition

Pre-completion contracts for the sale of development properties

HKFRS	HK-Int 3 – "Revenue – Pre-completion Contracts for the Sale of Development Properties" requires revenue to be recognised in respect of pre-completion contracts that are not specifically negotiated for construction of properties (and hence do not meet the definition of construction contracts set out in HKAS 11 – "Construction Contracts") only when the requirements in paragraph 14 of HKAS 18 – "Revenue" regarding a sale of goods are met. The stage of completion method to recognise revenue arising from such contracts is prohibited. HK-Int 3 included a transitional provision that permitted entities to continue to apply the percentage of completion method to those pre-completion contracts for the sale of development properties entered into before 1 January 2005, irrespective of whether they met the definition of a construction contract in HKAS 11.
IFRS 1	The requirements of IAS 18 are consistent with the treatment proposed by HK-Int 3. However, IFRS 1 requires that this treatment be applied retrospectively.
DIFFERENCE	Revenues and related costs may be recognised in different periods in respect of pre-completion-contracts that were entered into prior to 1 January 2005 and for which the requirements in HKAS 18.14 were not met prior to the date of transition (1 January 2006) to the extent that: a. the adoption of HK-Int 3 represented a change in accounting policy; and b. this change was applied prospectively.
REFERENCES	HK-Int3.8, IAS11.3 and IAS18.14

Employee benefits

Defined benefit plans – transitional liability

HKFRS	When SSAP 34 - "Employee Benefits" was first applied, an entity could make an irrevocable election to defer the immediate recognition of any transitional liability arising from an excess of defined benefit obligations over plan assets as at 1 January 2002[1], and instead recognise the transitional liability as an expense on a straight-line basis over the five year period ending 31 December 2006.
IFRS 1	Liabilities arising from defined benefit plans must be accounted for retrospectively, subject to an allowed exemption to reset unrecognised actuarial gains and losses to zero at the date of transition.
DIFFERENCE	Differences will arise in the 2006 income statement for entities that elected to amortise the SSAP 34 transitional liability over the five years ended 31 December 2006. The transitional liability will, however, be fully amortised by 31 December 2006.
REFERENCES	HKAS19.153A

[1] Transitional liabilities arising from long service payments required under the Employment Ordinance could also be deferred and amortised over five years in accordance with SSAP 34. The date of adoption of defined benefit plan accounting for long service payments may have been 1 January 2002 or 1 January 2003, depending upon the entity's accounting policy on adoption of SSAP 34. Accordingly, transitional liabilities for long service payments may continue to impact profit or loss in both 2006 and 2007.

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Part II: Potential areas of difference that may require changes in HKFRS accounting policies to achieve dual compliance

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NON-FINANCIAL ASSETS

Borrowing costs

Benchmark treatment

HKFRS	Prior to 1 January 2005, entities were required by SSAP 19 – "Borrowing Costs" to capitalise all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset. Subsequent to the adoption of HKAS 23 – "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset may be either: • recognised as expense in the period in which they are incurred (benchmark treatment); or • capitalised as part of the cost of the qualifying asset (alternative treatment). HKAS 23 allowed an entity to adopt the benchmark treatment of expensing all borrowing costs as a change in accounting policy that could be accounted for prospectively; no adjustment for borrowing costs capitalised prior to 1 January 2005 was required.
IFRS 1	A first-time adopter must apply the selected policy for borrowing costs retrospectively.
DIFFERENCE	Differences may arise for those entities that have applied the benchmark treatment in HKAS 23 prospectively from 1 January 2005 and the qualifying assets have not been fully depreciated / amortised or disposed by the entities as at the date of transition (1 January 2006).
CONSIDERATION	This difference may be avoided by electing to adopt HKAS 23 (revised) early and designating 1 January 2005 as the date of application of the revised standard. The adoption of HKAS 23 (revised) would represent a change in accounting policy leading to capitalisation of borrowing costs relating to qualifying assets for all periods; this treatment would therefore be consistent with a full retrospective application of IAS 23 (revised).
REFERENCES	HKAS23.30, IAS8.13 & HKAS23(revised).28

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INCOME STATEMENT

Employee benefits

Defined benefit plans – actuarial gains and losses

HKFRS

There are 3 permissible methods under HKAS 19 – “Employee Benefits” for the recognition of actuarial gains and losses:

- The “corridor” approach, whereby unrecognised gains and losses outside a 10% “corridor” (based on the larger of the defined benefit obligation and plan assets) are spread over the employees’ expected average remaining working lives;
- Immediate recognition in the income statement; and
- Immediate recognition in the Statement of Recognised Income and Expense (SORIE).

An entity was required to recognise the cumulative actuarial gains and losses of defined benefit plans in full on the initial adoption of SSAP 34 (i.e. 1 January 2002[2]), to the extent that the transitional liability approach was not adopted. SSAP 34 did not permit the “corridor” approach to be applied retrospectively.

IFRS 1

On first-time adoption, an entity may elect to recognise the cumulative actuarial gains and losses of defined benefit plans in full at the date of transition (i.e. 1 January 2006) or to apply the “corridor” approach retrospectively.

DIFFERENCE

Differences between HKFRS and IFRS could arise for entities that under HKFRS have elected to apply the “corridor” approach to recognise actuarial gains and losses. This potential difference arises due to unrecognised actuarial gains and losses being reset to zero in different periods.

CONSIDERATION

Differences could be removed by electing to recognise all actuarial gains and losses each year in the Statement of Recognised Income and Expense. Adoption of this approach would represent a change in accounting policy under HKFRS for the year ended 31 December 2007, and would be applied retrospectively.

REFERENCES

IAS19.64 & IFRS1.20

[2] SSAP 34 also required cumulative actuarial gains and losses arising from long service payments required under the Employment Ordinance to be recognised. The date of adoption of defined benefit plan accounting for long service payments may have been 1 January 2002 or 1 January 2003, depending upon the entity’s accounting policy on adoption of SSAP 34. Potential differences arising between HKFRS and IFRS may also be eliminated by electing to recognise all actuarial gains and losses each year in the Statement of Recognised Income and Expense.

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Part III: Differences that may be avoided through the use of IFRS 1 exemptions

Generally, IFRS 1 requires an entity to apply the same accounting policies in its opening balance sheet and throughout all periods presented in its first financial statements (IFRS 1.7). There are, however, certain exceptions to this requirement, and additional exemptions that an entity may elect to apply. The following analysis sets out certain exemptions that may be beneficial to an entity that wishes to minimise differences between HKFRS and IFRS on first time adoption.

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NON-FINANCIAL ASSETS

Property, plant and equipment

Revaluation as deemed cost

HKFRS	On adoption of HKAS 16 entities that measured property, plant and equipment based on revaluations performed prior to 30 September 1995 were exempted from the requirement to make regular revaluations prospectively, provided that these entities did not measure their property, plant and equipment using the revaluation model subsequent to 1995. The revalued amount became a deemed cost as at the revaluation date for subsequent measurement under HKAS 16.
IFRS 1	A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as deemed cost. This exemption may be used when the revaluation was, at the date of the revaluation, broadly comparable to the fair value under IFRS. When this exemption is applied, the revalued amount at the date of the revaluation becomes the deemed cost for subsequent accounting under IFRS. An entity that uses the exemption is not required to use the revaluation model in IAS 16 for subsequent measurement.
CONCLUSION	Where an entity elected to treat a revaluation of property, plant and equipment performed prior to 30 September 1995 as deemed cost, consistent measurement under both HKFRS and IFRS may be achieved by applying the IFRS 1 deemed cost exemption.
REFERENCES	HKAS16.80A, IAS16.29 and IFRS1.17

Investment property – cost model

Revaluation as deemed cost

HKFRS	On adoption of HKAS 40 an entity was permitted to adopt the cost model, notwithstanding that they may previously have adopted a revaluation policy under SSAP 13. An entity was permitted to treat the previous carrying amount as a deemed cost on the date that HKAS 40 was first applied (1 January 2005).
IFRS 1	A first-time adopter may elect to use a previous GAAP revaluation of an investment property at, or before, the date of transition to IFRS as deemed cost. This exemption may be used when the revaluation was, at the date of the revaluation, broadly comparable to the fair value under IFRS. When the exemption is applied, the revalued amount at the date of the revaluation becomes the deemed cost for subsequent accounting under IFRS. An entity that uses the exemption is not required to use the fair value model in IAS 40 for subsequent measurement.
CONCLUSION	Where an entity elected to treat a revaluation of investment property under SSAP 13 as deemed cost on adoption of HKAS 40, consistent measurement under both HKFRS and IFRS may be achieved by applying the IFRS 1 deemed cost exemption.
REFERENCES	HKAS40.83A, IAS40.30 and IFRS1.18

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BUSINESS COMBINATIONS

Purchase Accounting

Method of accounting and intangible assets

HKFRS	The adoption of HKFRS 3 – "Business Combinations" required that the purchase method of accounting be used to account for business combinations with agreements dated on or after 1 January 2005. All of the identifiable intangible assets acquired in business combinations with agreements dated on or after 1 January 2005 must be recognised separately from goodwill. An asset is identifiable when it either arises from contractual or other legal rights or is separable. An asset is separable if it could be sold on its own or with other assets. HKFRS 3 therefore required recognition of intangible assets that would previously have been subsumed within goodwill in business combinations that occurred before 1 January 2005, such as customer lists and customer relationships. No restatement was required for business combinations that occurred prior to 1 January 2005.
IFRS 1	A first-time adopter may apply the "business combination exemption" in IFRS 1, which allows for prospective application of IFRS 3 to business combinations either with agreements dated on or after 1 January 2006, or any other agreement date prior to 1 January 2006 that is designated by the entity. Intangible assets acquired in business combinations that are not restated in accordance with this exemption, which were not recognised separately from goodwill under previous GAAP, remain in goodwill unless IAS 38 would require its recognition in the financial statements of the acquiree.
CONCLUSION	A difference between HKFRS and IFRS may be avoided by electing to apply IFRS 1 to business combinations occurring after 1 January 2005. Intangible assets acquired in business combinations occurring before 1 January 2005 that were not recognised separately from goodwill under HK GAAP would not normally be recognised on application of IFRS 1 to the extent that they were generated internally by the acquiree.
REFERENCES	HKAS38.130, IAS38.33-43, IFRS1.15, IFRS1Appendix B1 & B2(g)(i), HKFRS3.78, IFRS3.14

Translation of fair value adjustments and goodwill

HKFRS	The adoption of HKAS 21 – "The Effects of Changes in Foreign Exchange Rates" required that goodwill and fair value adjustments arising on the acquisition of a foreign operation be treated as assets/liabilities of the foreign operation and expressed in its functional currency. Accordingly, goodwill and fair value adjustments should be translated at the closing rate in the same manner as any other assets and liabilities of the foreign operation. When HKAS 21 was first applied (1 January 2005), entities had the option either to apply this principle retrospectively or only to apply it prospectively to acquisitions occurring subsequent to the date of adoption.
IFRS 1	A first-time adopter may apply the "business combination exemption" in IFRS 1, which allows the IAS 21 requirements to be applied retrospectively to fair value adjustments and goodwill arising in either: a. all business combinations that occurred before the date of transition to IFRS; or b. all business combinations that occurred subsequent to a date of the entity's choosing to which the entity applied IFRS 3, as permitted by paragraph IFRS 1.B1
CONCLUSION	An entity that elected to apply HKAS 21 prospectively may make a similar election to apply IFRS 1 to business combinations occurring after 1 January 2005, therefore eliminating this potential difference between HKFRS and IFRS.
REFERENCES	HKAS21.59, IAS21.47 and IFRS1.15 & Appendix B1A

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INCOME STATEMENT

Share-based payments

Equity settled share-based payment transactions

HKFRS

Equity-settled share-based payment transactions involving the grant of equity instruments after 7 November 2002, that had not vested by 1 January 2005, were required to be accounted for in accordance with HKFRS 2 – "Share-based Payment" when this standard was first applied (1 January 2005). Entities were encouraged, but not required, to apply HKFRS 2 to equity-settled share-based payment transactions with equity instruments granted:

- before 7 November 2002; or
- after 7 November 2002 but vested before 1 January 2005.

However, this treatment was only possible to the extent that the entity had disclosed publicly the fair value of those equity instruments determined at the measurement date.

IFRS 1

IFRS 1 contains a similar transitional provision, which requires equity-settled share-based payment transactions involving the grant of equity instruments after 7 November 2002, that had not vested by the later of 1 January 2005 and the date of transition (1 January 2006), to be accounted for in accordance with IFRS 2. The vesting date of 1 January 2006 in IFRS 1 could give rise to differences. However, IFRS 1 also allows an earlier date to be used, provided that the entity has previously disclosed publicly the fair value of the instruments determined at the measurement date.

CONCLUSION

An entity may therefore make use of the further exemption in IFRS 1 to apply IFRS 2 to awards that vested in 2005 to avoid a difference between HKFRS and IFRS.

REFERENCES HKFRS2.53, IFRS1.25B

Unidentified goods or services

HKFRS

HK(IFRIC)-Int 8 – "Scope of HKFRS 2" clarifies that the principle in HKFRS 2 applies to arrangements where an entity makes share-based payments for apparently no, or inadequate, consideration. HK(IFRIC)-Int 8 must be applied either retrospectively, or using the same transitional provisions that were applied on adoption of HKFRS 2.

IFRS 1

IFRIC 8 is an interpretation of the requirements of IFRS 2. Since no exemption or transitional provisions for IFRIC 8 are included in IFRS 1, the interpretation must be applied to all share-based payment transactions to which IFRS 2 has been applied.

CONCLUSION

Similar to the conclusion regarding equity-settled share-based payment transactions set out above, differences between HKFRS and IFRS may be avoided for share-based payment transactions involving unidentified goods and services through the use of the exemption conferred by IFRS 1.

REFERENCES HK(IFRIC)-Int8.14, IFRIC8.14

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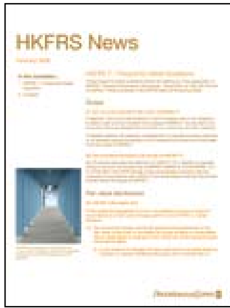
PricewaterhouseCoopers' HKFRS/IFRS Technical Publications



HKFRS News

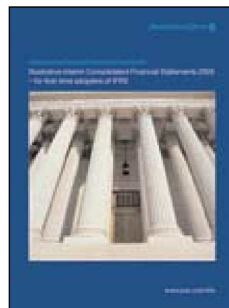
Monthly newsletter highlighting the latest update in the Hong Kong Financial Reporting Standards.

IFRS Manual of Accounting 2008

Provides expert practical guidance on how groups should prepare their consolidated financial statements in accordance with IFRS. Comprehensive publication including hundreds of worked examples, extracts from company reports and model financial statements.

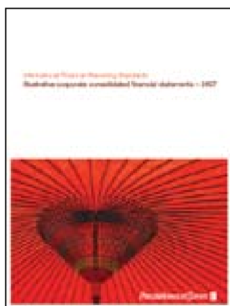
Adopting IFRS – A step-by-step illustration of the transition to IFRS

Illustrates the steps involved in preparing the first IFRS financial statements. It takes into account the effect on IFRS 1 of the standards issued up to and including March 2004.



Illustrative Interim Consolidated Financial Statements for First-time Adopters – 2005

Realistic set of interim IFRS financial statements for first-time adopters. The financial statements for the six months ended June 2005 illustrate the disclosure and presentation required by all IFRSs published up to and including December 2004.



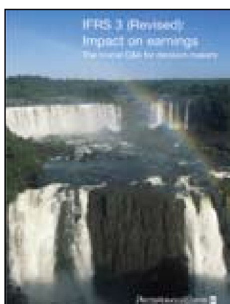
Illustrative Consolidated Financial Statements

- Banking, 2006
- Corporate, 2007
- Insurance, 2006
- Investment funds, 2006
- Investment property, 2006

Realistic sets of financial statements – for existing IFRS preparers in the above sectors – illustrating the required disclosure and presentation.

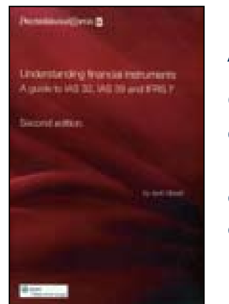
IFRS Disclosure Checklist 2007

Outlines the disclosures required by all IFRSs published up to September 2007.



IFRS 3 (Revised): Impact on Earnings – the crucial Q&A for decision-makers

Guide aimed at finance directors, financial controllers and deal-makers, providing background to the standard, impact on the financial statements and business, and summary differences with US GAAP.



Understanding Financial Instruments – A guide to IAS 32, IAS 39 and IFRS 7

Comprehensive guidance on all aspects of the requirements for financial instruments accounting. Detailed explanations illustrated through worked examples and extracts from company reports.

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