

Financial Reporting Update 2017

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Wall Painting in Tomb of Nebamun (Egypt) @ The British Museum, UK

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Effective for 2016 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

	Effective for periods beginning on/after	
• Amendments to HKFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	➤ 1 Jan. 2016	
• Amendments to HKAS 16 and HKAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	➤ 1 Jan. 2016	
• Amendments to HKAS 16 and HKAS 41 <i>Agriculture: Bearer Plants</i>	➤ 1 Jan. 2016	
• Amendments to HKAS 27 <i>Equity Method in Separate Financial Statements</i>	➤ 1 Jan. 2016	
• Amendments to HKFRS 10 and HKAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	➤ 1 Jan. 2016 (definitely)	
• Annual Improvements to HKFRSs 2012-2014 Cycle	➤ 1 Jan. 2016 (or other)	
• Amendments to HKAS 1 <i>Disclosure Initiative</i>	➤ 1 Jan. 2016	
• Amendments to HKFRS 10 and 12 and HKAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	➤ 1 Jan. 2016	
• HKFRS 14 <i>Regulatory Deferral Accounts</i>	➤ 1 Jan. 2016	

Effective for 2017 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

	Effective for periods beginning on/after	
• Amendments to HKAS 7 <i>Disclosure Initiative (Statement of Cash Flows)</i>	➤ 1 Jan. 2017	
• Amendments to HKAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	➤ 1 Jan. 2017	
• Amendments to HKFRS for Private Entities	➤ 1 Jan. 2017	

Effective after 2017 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

Selected new interpretations and amendments to HKFRSs	Effective for periods beginning on/after
• HKFRS 9 (2014) <i>Financial Instruments</i>	➤ 1 Jan. 2018
• HKFRS 15 <i>Revenue from Contracts with Customers</i>	➤ 1 Jan. 2017
• Amendments to HKFRS 15 <i>Effective Date of HKFRS 15 Revenue from Contracts with Customers</i>	➤ 1 Jan. 2018
• Amendments to HKFRS 15 <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>	➤ 1 Jan. 2018
• Amendments to HKFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i>	➤ 1 Jan. 2018
• Amendments to HKFRS 4 <i>Insurance Contracts</i>	➤ 1 Jan. 2018
• HKFRS 16 <i>Leases</i>	➤ 1 Jan. 2019

Today's Agenda



New or Revised HKFRS
Effective for 2016

New or Revised HKFRS
Effective for 2017

New or Revised HKFRS Effective after
2017, including HKFRS 9, 15 and 16

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Today's Agenda



New or Revised HKFRS
Effective for 2016

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Abu Simbel @ Egypt

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• Amendments to HKFRS 10 and 12 and HKAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	➤ 1 Jan. 2016
• HKFRS 14 <i>Regulatory Deferral Accounts</i>	➤ 1 Jan. 2016

Accounting for Acquisitions of Interests in Joint Operations (Amendments to HKFRS 11)



Amendments to HKFRS 11

- HKFRS 11 – Paragraph 21A is added:
 - When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3, it shall
 - apply, to the extent of its share in accordance with paragraph 20,
 - all of the principles on business combinations accounting in HKFRS 3, and
 - other HKFRSs, that do not conflict with the guidance in this HKFRS and
 - disclose the information that is required in those HKFRSs in relation to business combinations.
 - This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business.
 - The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D. (HKFRS 11.21A)

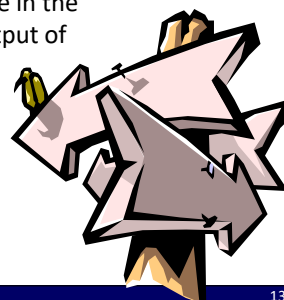


Acceptable Methods of Depreciation and Amortisation (Amendments to HKAS 16 and HKAS 38)



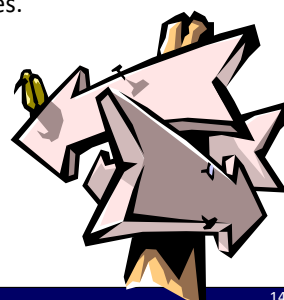
Amendments to HKAS 16

- HKAS 16 – Paragraph 56 is amended:
 - The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors ... Consequently, all the following factors are considered in determining the useful life of an asset:
 - a. ...
 - c. technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. (HKAS 16.56(c))



Amendments to HKAS 16

- HKAS 16 – paragraphs 62A and 81I are added:
 - A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.
 - The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset.
 - For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices.
 - The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. (HKAS 16.62A)



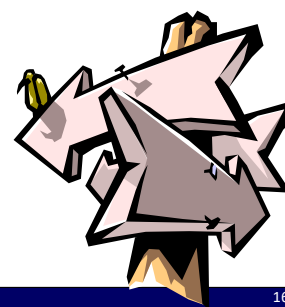
Amendments to HKAS 38

- HKAS 38 – Paragraph 92 is amended:
 - Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence.
 - Therefore, it will often be the case that their useful life is short.
 - Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. (HKAS 38.92)
- HKAS 38 – In paragraph 98,
 - the phrase ‘unit of production method’ has been amended to ‘units of production method’.



Amendments to HKAS 38

- HKAS 38 – Paragraphs 98A–98C are added.
 - There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate ... (same as HKAS 16)
 - This presumption can be overcome only in the limited circumstances:
 - a. in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or
 - b. when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. (HKAS 38.98A)



Amendments to HKAS 38

- HKAS 38 – Paragraphs 98A–98C are added.
 - In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset (HKAS 38.98B)
 - In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation (HKAS 38.98C)



Amendments to HKAS 38

Example

- For example, an entity could acquire a concession to explore and extract gold from a gold mine.
 - The expiry of the contract might
 - be based on a fixed amount of total revenue to be generated from the extraction
 - for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches \$2 billion, and
 - not be based on time or on the amount of gold extracted. (HKAS 38.98C)



Amendments to HKAS 38

Example

- In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged
 - For example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches \$100 million (HKAS 38.98C)



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Amendments to HKAS 38

- HKAS 38 – Paragraphs 98A–98C are added.
 - In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset,
 - the revenue that is to be generated might be an appropriate basis for amortising the intangible asset,
 - provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined (HKAS 38.98C)



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Agriculture: Bearer Plants

(Amendments to HKAS 16 and 41)

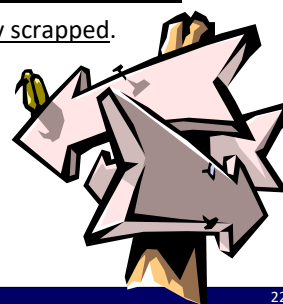


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Amendments to HKAS 16 and 41

- HKAS 41 *Agriculture* currently requires all biological assets related to agricultural activity to be measured at fair value less costs to sell.
 - Based on the principle that the biological transformation that these assets undergo during their lifespan is best reflected by fair value measurement.
- But there is a subset of biological assets, known as bearer plants, which are used solely to grow produce over several periods.
 - At the end of their productive lives they are usually scrapped.
 - Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits.
 - The only significant future economic benefits it generates come from the agricultural produce that it creates.

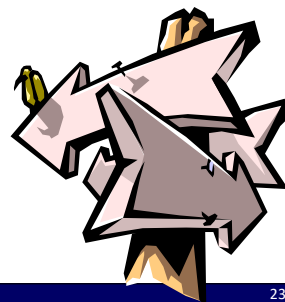


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Amendments to HKAS 16 and 41

- The amendments state that bearer plants should be accounted for in the same way as property, plant and equipment in HKAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing.
 - Consequently, the amendments include them within the scope of HKAS 16, instead of HKAS 41.
 - The produce growing on bearer plants will remain within the scope of HKAS 41.
 - Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016.
 - Earlier application is permitted.



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Equity Method in Separate Financial Statements (Amendments to HKAS 27)

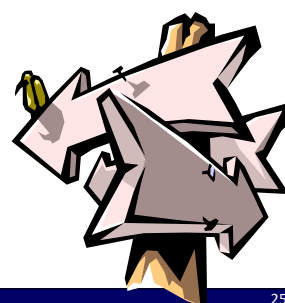


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Amendments to HKAS 27

- The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.



Amendments to HKAS 27

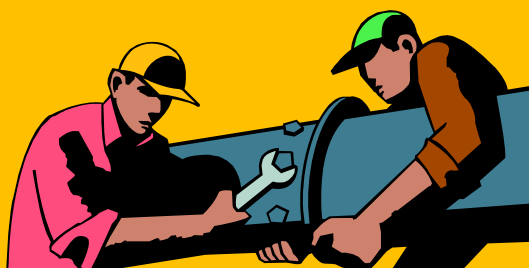
- HKAS 27.4 about definition of separate financial statements is amended as follows:
 - Original: Separate financial statements are those presented by a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with HKFRS 9 Financial Instruments.
 - Amended: Separate financial statements are those presented by an entity in which the entity could elect, subject to the requirements in this Standard, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with HKFRS 9 Financial Instruments, or using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

Amendments to HKAS 27

- HKAS 27.10 is amended as follows:
 - When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:
 - (a) at cost;
 - (b) in accordance with HKFRS 9; or
 - (c) using the equity method as described in HKAS 28.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to HKFRS 10 and HKAS 28)

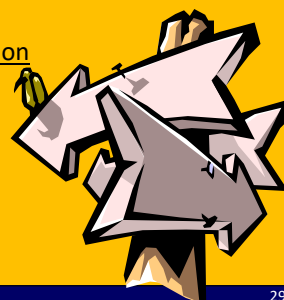
Deferred by
the IASB



Amendments to HKFRS 10 and HKAS 28

- The amendments address an acknowledged inconsistency between the requirements in HKFRS 10 and those in HKAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
 - The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not).
 - A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
 - The amendments will be effective from annual periods commencing on or after 1 January 2016 a date to be determined.

Deferred by
the IASB



Annual Improvements 2012-2014 Cycle



A.I. 2012-14: Introduction



- Annual Improvement Project
 - A vehicle for making non-urgent but necessary amendments to IFRS (and consequentially HKFRSs)
 - Introduced by the IASB in 2007 and issued each year
- The amendments contained in Annual Improvements 2012-2014 Cycle
 - Are issued in October 2014
 - The effective date of each amendment is included in the Standards affected

A.I. 2012-14: Summary

HKFRS Amended	Subject of Amendments
HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<ul style="list-style-type: none"> • Changes in methods of disposal
HKFRS 7 <i>Financial Instruments: Disclosures</i>	<ul style="list-style-type: none"> • Servicing contracts • Applicability of the amendments to HKFRS 7 to condensed interim financial statements
HKAS 19 <i>Employee Benefits</i>	<ul style="list-style-type: none"> • Discount rate: regional market issue
HKAS 34 <i>Interim Financial Reporting</i>	<ul style="list-style-type: none"> • Disclosure of information 'elsewhere in the interim financial report'

A.I. 2012-14: HKFRS 5

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

- For changes in method of disposal, HKFRS 5.26 is added:
 - If an entity **reclassifies** an asset (or disposal group)
 - directly from being held for sale to being held for distribution to owners, or
 - directly from being held for distribution to owners to being held for sale,
 then the change in classification is considered a continuation of the original plan of disposal.
 - The entity:
 - a) shall not follow the guidance in para. 27–29 to account for this change. The entity shall apply the classification, presentation and measurement requirements in HKFRS 5 that are applicable to the new method of disposal.

A.I. 2012-14: HKFRS 7

HKFRS 7 Financial Instruments: Disclosures

- HKFRS 7.B30 is amended as follows:
 - The term 'payment' in this context does not include cash flows of the transferred financial asset that an entity collects and is required to remit to the transferee.

A.I. 2012-14: HKFRS 7

HKFRS 7 Financial Instruments: Disclosures

- HKFRS 7.B30A is added:
 - When an entity transfers a financial asset, the entity may retain the right to service that financial asset for a fee that is included in, for example, a servicing contract.
 - The entity assesses the servicing contract in accordance with the guidance in para. 42C and B30 to decide whether the entity has continuing involvement as a result of the servicing contract for the purposes of the disclosure requirements.

A.I. 2012-14: HKAS 19

HKAS 19 Employee Benefits

- For actuarial assumptions: discount rate, HKAS 19.83 is amended as follows:
 - The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds.
 - For currencies for which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency shall be used.
 - The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

A.I. 2012-14: HKAS 34

HKAS 34 Interim Financial Reporting

– HKAS 34.16A is amended:

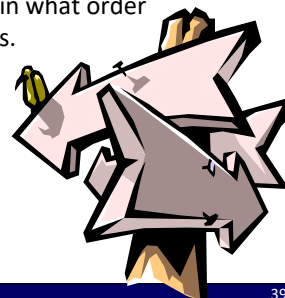
- In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report.
- The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.
- If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete.

Disclosure Initiative (Amendments to HKAS 1)



Amendments to HKAS 1

- The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.
 - For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.
 - Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.



Amendments to HKAS 1

- HKAS 1.30A is added:
 - When applying this and other HKFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes.
 - An entity shall not reduce the understandability of its financial statements
 - by obscuring material information with immaterial information or
 - by aggregating material items that have different natures or functions.

Amendments to HKAS 1

- HKAS 1.31 is amended:
 - Some HKFRSs specify information that is required to be included in the financial statements, which include the notes.
 - An entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material.
 - This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements.
 - An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Amendments to HKAS 1

- HKAS 1.55A is added:
 - When an entity presents subtotals in accordance with paragraph 55, those subtotals shall:
 - a) be comprised of line items made up of amounts recognised and measured in accordance with HKFRS;
 - b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
 - c) be consistent from period to period, in accordance with paragraph 45; and
 - d) not be displayed with more prominence than the subtotals and totals required in HKFRS for the statement of financial position.

Amendments to HKAS 1

- HKAS 1.82A is amended:
 - The other comprehensive income section shall present line items for the amounts for the period of:
 - a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other HKFRSs:
 - i. will not be reclassified subsequently to profit or loss; and
 - ii. will be reclassified subsequently to profit or loss when specific conditions are met.
 - b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other HKFRSs:
 - i. will not be reclassified subsequently to profit or loss; and
 - ii. will be reclassified subsequently to profit or loss when specific conditions are met.

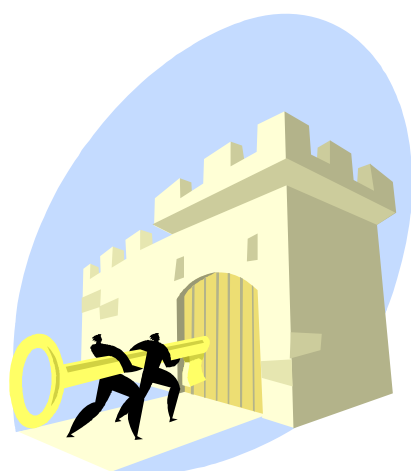
Amendments to HKAS 1

- HKAS 1.85A is added:
 - When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:
 - a) be comprised of line items made up of amounts recognised and measured in accordance with HKFRS;
 - b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;
 - c) be consistent from period to period, in accordance with paragraph 45; and
 - d) not be displayed with more prominence than the subtotals and totals required in HKFRS for the statement(s) presenting profit or loss and other comprehensive income.

Amendments to HKAS 1

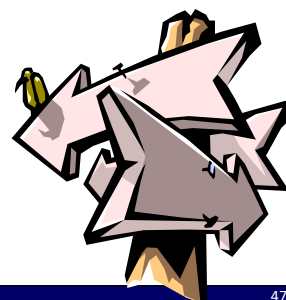
- HKAS 1.113 is amended:
 - An entity shall, as far as practicable, present notes in a systematic manner.
 - In determining a systematic manner, the entity shall consider the effect on the **understandability** and **comparability** of its financial statements.
 - An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

Investment Entities: Applying the Consol. Exception (Amendments to HKFRS 10 and 12 and HKAS 28)



Amendments to HKFRS 10 & 12 & HKAS 28

- The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities.
 - The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.
 - The above-mentioned amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.



Amendments to HKAS 28

- HKAS 28.17 is amended as follows:
 - An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of HKFRS 10 or if all the following apply:
 -
 - (d) The ultimate or any intermediate parent of the entity produces financial statements available for public use that comply with HKFRSs, in which subsidiaries
 - are consolidated or
 - are measured at fair value through profit or loss in accordance with HKFRS 10.
- A similar amendment is also made in HKFRS 10.4(a)



Amendments to HKFRS 10



- HKFRS 10.4(a) is amended as follows:
 - a parent need not present consolidated financial statements if it meets all the following conditions:
 - (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity
 - (ii) its debt or equity instruments are not traded in a public market
 - (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
 - (iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with HKFRSs or International Financial Reporting Standards, in which subsidiaries
 - are consolidated or
 - are measured at fair value through profit or loss in accordance with this HKFRS.

Amendments to HKFRS 10



- HKFRS 10.4A and 4B are added:
 - This HKFRS does not apply to
 - post-employment benefit plans or
 - other long-term employee benefit plans
 to which HKAS 19 *Employee Benefits* applies.
 - A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this HKFRS, to measure all of its subsidiaries at fair value through profit or loss.

Amendments to HKFRS 10

- *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28), issued in January 2015, amended paragraphs 4, 32, B85C, B85E and C2A and added paragraphs 4A–4B.
 - An entity shall apply those amendments for annual periods beginning on or after 1 January 2016.
 - Earlier application is permitted.
 - If an entity applies those amendments for an earlier period it shall disclose that fact.



Amendments to HKFRS 12

- HKFRS 12.6(b) is amended as follows:
 - This HKFRS does not apply to:
 - (a) ...
 - (b) an entity's separate financial statements to which HKAS 27 *Separate Financial Statements* applies. However:
 - (i) ...
 - (ii) an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of HKFRS 10 shall present the disclosures relating to investment entities required by this HKFRS.



HKFRS 14 Regulatory Deferral Accounts

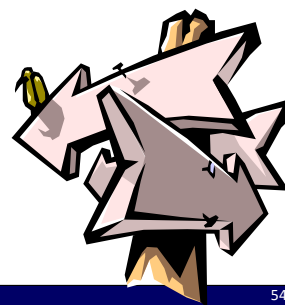


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Introduction

- HKFRS 14 was issued in February 2014
 - To permit **first-time adopters** to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt HKFRS
 - However, to enhance comparability with entities that already apply HKFRS and do not recognise such amounts, HKFRS 14 requires that the effect of rate regulation must be presented separately from other items.
 - An entity that already presents HKFRS financial statements is not eligible to apply HKFRS 14
 - The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted



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Objective

- The objective of HKFRS 14 is to specify the financial reporting requirements for
 - **regulatory deferral account balances** that arise when an entity provides goods or services to customers at a price or rate that is subject to **rate regulation** (HKFRS 14.1)
- In meeting this objective, HKFRS 14 requires:
 - a) limited changes to the accounting policies that were applied in accordance with previous GAAP for regulatory deferral account balances, which are primarily related to the presentation of these accounts; and
 - b) disclosures that:
 - i. identify and explain the amounts recognised in the entity's financial statements that arise from rate regulation; and
 - ii. help users of the financial statements to understand the amount, timing and uncertainty of future cash flows from any regulatory deferral account balances that are recognised.

Objective

HKFRS 14 defines

- **Rate regulation:** A framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator.
- **Rate regulator:** An authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.
- **Regulatory deferral account balance:** The balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.

Scope

- An entity is permitted to apply the requirements of HKFRS 14 in its first HKFRS financial statements if and only if it:
 - a. conducts rate-regulated activities; and
 - b. recognised amounts that qualify as regulatory deferral account balances in its financial statements in accordance with its previous GAAP (HKFRS 14.5)
- An entity shall apply the requirements of HKFRS 14 in its financial statements for subsequent periods if and only if, in its first HKFRS financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of HKFRS 14 (HKFRS 14.6)

Scope

- HKFRS 14 does not address other aspects of accounting by entities that are engaged in rate-regulated activities
 - By applying the requirements in HKFRS 14, any amounts that are permitted or required to be recognised as assets or liabilities in accordance with other HKFRSs shall not be included within the amounts classified as regulatory deferral account balances.
- An entity that is within the scope of, and that elects to apply,
 - HKFRS 14 shall apply all of its requirements to all regulatory deferral account balances that arise from all of the entity's rate-regulated activities (HKFRS 14.8)

Today's Agenda



New or Revised HKFRS
Effective for 2017

Full Presentation can be found in:

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Aurora @ Iceland

Photo taken by Stephanie and Nelson © 2016

Effective for 2017 Dec. Year-End

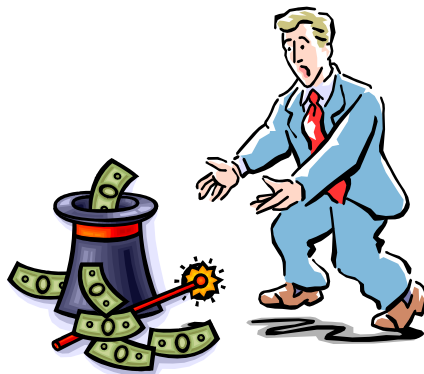
Selected new interpretations and amendments to HKFRSs

Effective for periods beginning on/after

- Amendments to HKAS 7 *Disclosure Initiative (Statement of Cash Flows)* ➤ 1 Jan. 2017 
- Amendments to HKAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* ➤ 1 Jan. 2017 
- Amendments to HKFRS for Private Entities ➤ 1 Jan. 2017 

Disclosure Initiative

(Amendments to HKAS 7 *Statement of Cash Flows*)



Amendments to HKAS 7

- In 2016, the IASB amended IAS 7, and the HKICPA then followed to amend HKAS 7, as part of the IASB's *Disclosure Initiative* project
- HKAS 7 then requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both
 - changes arising from cash flows and
 - non-cash changes (HKAS 7.44A)

Amendments to HKAS 7

- To the extent necessary to satisfy the new requirement, an entity is required to disclose the following changes in liabilities arising from financing activities:
 1. changes from financing cash flows;
 2. changes arising from obtaining or losing control of subsidiaries or other businesses;
 3. the effect of changes in foreign exchange rates;
 4. changes in fair values; and
 5. other changes.
- To fulfil the disclosure requirement, an entity can provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes as identified above.

Amendments to HKAS 7

Example

- Reconciliation of liabilities arising from financing activities**

	2015	Cash flows	Non-cash changes		2016
			Acquisition	New leases	
	\$	\$	\$	\$	\$
Long-term borrowings	1,040	250	200	–	1,490
Lease liabilities	–	(90)	–	900	810
Long-term debt	1,040	160	200	900	2,300

Deferred Tax Assets for Unrealised Losses

(Amendments to HKAS 12 *Income Taxes*)



Amendments to HKAS 12

- In 2016, the IASB issued amendments to IAS 12, and then HKICPA followed the same,
 - to clarify the requirements on recognition of deferred assets for unrealised losses, including the deferred tax assets related to debt instruments measured at fair value.

Amendments to HKAS 12

- When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.
 - If tax law imposes no such restrictions,
 - an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.
 - However, if tax law restricts the utilisation of losses to deduction against income of a specific type,
 - a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type (HKAS 12.27A)

Amendments to HKAS 12

- In estimating probable future taxable profit, the estimate may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

Amendments to HKAS 12

Example

- Happy Limited measures a fixed-rate debt instrument at fair value (which is lower than the maturity value).
- HKAS 12 requires Happy to consider whether there is sufficient evidence to conclude that it is probable that Happy will recover the instrument for more than its carrying amount.
- When Happy expects to hold a fixed-rate debt instrument until maturity and collect all the contractual cash flows, this may be the case that it is probable that Happy will recover the instrument for more than its carrying amount.

HKFRS for Private Entities



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Key Changes (HKICPA Update No. 175)

- Allowing an option to use the revaluation model for property, plant and equipment; and
- Replacing the modified text in section 29 *Income Tax* of HKFRS for PE with the revised section 29 of the amendments to the IFRS for SMEs.
 - As a result of this change, the recognition and measurement requirements for deferred income taxes of HKFRS for PE, IFRS for SMEs and IAS 12 *Income Taxes* are now aligned.
- The other amendments
 - clarify the existing requirements or add supporting guidance,
 - instead of changing the underlying requirements in the standard.



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Today's Agenda



New or Revised HKFRS Effective after 2017, including HKFRS 9, 15 and 16

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Stonehenge @ U.K.

Photo taken by Stephanie and Nelson © 2016

Effective after 2017 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- HKFRS 9 (2014) *Financial Instruments* ➤ 1 Jan. 2018
- HKFRS 15 *Revenue from Contracts with Customers* ➤ ~~1 Jan. 2017~~
- Amendments to HKFRS 15 *Effective Date of HKFRS 15 Revenue from Contracts with Customers* ➤ 1 Jan. 2018
- Amendments to HKFRS 15 *Clarifications to HKFRS 15 Revenue from Contracts with Customers* ➤ 1 Jan. 2018
- Amendments to HKFRS 2 *Classification and Measurement of Share-based Payment Transactions* ➤ 1 Jan. 2018
- Amendments to HKFRS 4 *Insurance Contracts* ➤ 1 Jan. 2018
- HKFRS 16 *Leases* ➤ 1 Jan. 2019

Effective for periods beginning on/after

- 1 Jan. 2018
- ~~1 Jan. 2017~~
- 1 Jan. 2018
- 1 Jan. 2018
- 1 Jan. 2018
- 1 Jan. 2018
- 1 Jan. 2019

HKFRS 9 Financial Instruments



HKFRS 9 Financial Instruments

1. Objective
2. Scope
3. Recognition and Derecognition
4. Classification
5. Measurement
6. Hedge Accounting
7. Effective Date and Transition



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Chapter 4.1 Classification of FA

- Unless para. 4.1.5 of HKFRS 9 (so-called “fair value option”) applies, an entity shall classify financial assets as subsequently measured at either
 - amortised cost,
 - fair value through other comprehensive income, or
 - fair value through profit or loss
- on the basis of both:
- a) the entity’s business model for managing the financial assets; and
 - b) the contractual cash flow characteristics of the financial asset.
(para. 4.1.1)

Amortised Cost

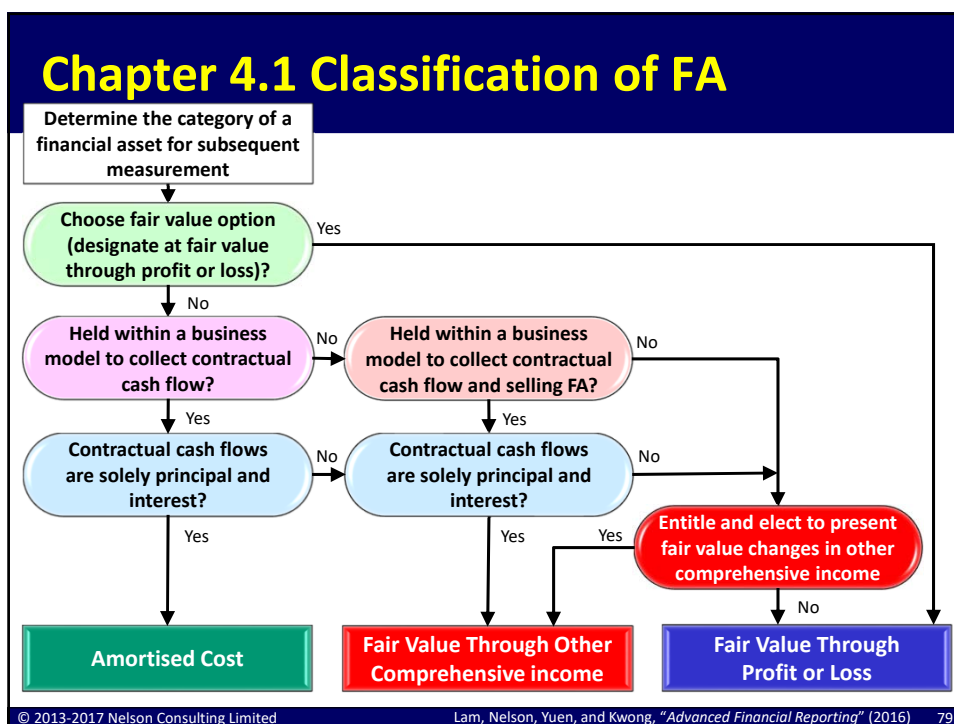
Fair Value Through Other
Comprehensive Income

Fair Value Through
Profit or Loss

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Chapter 4.1 Classification of FA



Chapter 4.1 Classification of FA

- Even the common understanding views that there are three categories in HKFRS 9 for the classification and subsequent measurement of a financial asset, a financial asset can be classified into the following four categories or sub-categories:
 1. Designated as at [fair value through profit or loss](#); and
 2. Classified as at:
 - a. [Amortised cost](#);
 - b. [Fair value through other comprehensive income](#), and
 - c. [Fair value through profit or loss](#)

Amortised Cost

Fair Value Through Other
Comprehensive income

Fair Value Through
Profit or Loss

Chapter 4.1 Classification of FA

Determine the category of a financial asset for subsequent measurement

Choose fair value option (designate at fair value through profit or loss)?

No

Held within a business model to collect contractual cash flow?

Yes

Contractual cash flows are solely principal and interest?

Yes

Amortised Cost

- A financial asset shall be measured **at amortised cost** if both of the following conditions are met:
 - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
 - the contractual terms of the financial asset give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding. (para. 4.1.2)
 - Para. B4.1.1–B4.1.26 provide guidance on how to apply these conditions.

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Chapter 4.1 Classification of FA

Determine the category of a financial asset for subsequent measurement

Choose fair value option (designate at fair value through profit or loss)?

No

Held within a business model to collect contractual cash flow?

No

Held within a business model to collect contractual cash flow and selling FA?

Yes

Contractual cash flows are solely principal and interest?

Contractual cash flows are solely principal and interest?

Yes

Fair Value Through Other Comprehensive Income

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Chapter 4.1 Classification of FA

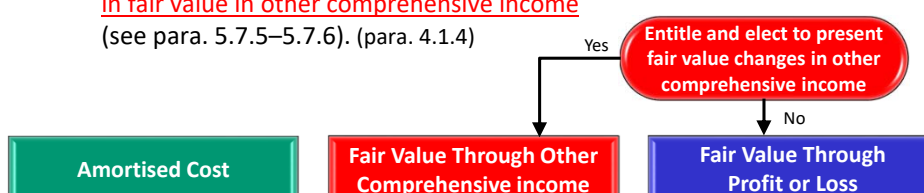
- A financial asset shall be measured **at fair value through other comprehensive income** if both of the following conditions are met:
 - a. the financial asset is held within a business model whose objective is achieved by both
 - collecting contractual cash flows and selling financial assets, and
 - b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
 - Para. B4.1.1–B4.1.26 provide guidance on how to apply these conditions. (para. 4.1.2A)

Held within a business model to collect contractual cash flow and selling FA?

Fair Value Through Other Comprehensive income

Chapter 4.1 Classification of FA

- A financial asset shall be measured **at fair value through profit or loss** unless it is measured
 - **at amortised cost** in accordance with para. 4.1.2 or
 - **at fair value through other comprehensive income** in accordance with parag. 4.1.2A.
- However an entity may make
 - an **irrevocable election** at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see para. 5.7.5–5.7.6). (para. 4.1.4)



Chapter 4.1 Classification of FA

Determine the category of a financial asset for subsequent measurement

Choose fair value option (designate at fair value through profit or loss)?

Yes

- Despite para. 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss
 - if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see para. B4.1.29–B4.1.32) (para. 4.1.5)

Fair Value Through Profit or Loss

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Chapter 4.1 Classification of FA

- The category of financial assets at fair value through profit or loss is composed of at least three groups of financial assets and they are:
 1. Financial assets designated at fair value through profit or loss by an entity;
 2. Financial assets measured at fair value but unable to be measured through other comprehensive income; and
 3. Financial assets held for trading, including derivatives.

Fair Value Through Profit or Loss

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Source: *Intermediate Financial Reporting 3rd (2017)* by Nelson Lam and Peter Lau 86

HKFRS 9 Financial Instruments

1. Objective
2. Scope
3. Recognition and Derecognition
4. Classification
5. Measurement
6. Hedge Accounting
7. Effective Date and Transition



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Chapter 5 Measurement

Initial measurement

- **Except for trade receivables** within the scope of para. 5.1.3,
 - at initial recognition, an entity shall measure a financial asset or financial liability
 - **at its fair value**
 - plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, **transaction costs** that are directly attributable to the acquisition or issue of the financial asset or financial liability. (para. 5.1.1)
- However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply para. B5.1.2A. (para. 5.1.1A)

To align HKFRS 15

Initial Measurement

Fair Value

+

Transaction Cost

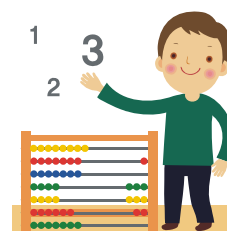
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Chapter 5 Measurement

Subsequent Measurement of Financial Assets

- After initial recognition, an entity shall measure a financial asset in accordance with para. 4.1.1–4.1.5 at:
 - a. amortised cost;
 - b. fair value through other comprehensive income; or
 - c. fair value through profit or loss. (para. 5.2.1)



Amortised Cost

Fair Value Through Other
Comprehensive Income

Fair Value Through
Profit or Loss

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Chapter 5 Measurement

Subsequent Measurement of Financial Assets

- An entity shall apply the impairment requirements in Section 5.5
 - to financial assets that are measured at amortised cost in accordance with para. 4.1.2 (i.e. under the “hold to collect” business model) and
 - to financial assets that are measured at fair value through other comprehensive income in accordance with para. 4.1.2A (i.e. under the “hold to collect and sell” business model). (para. 5.2.2)

Impairment requirements applied to these two categories only (implied that equity instruments are not subject to impairment requirements)

Entitle and elect to present fair value changes in other comprehensive income

Amortised Cost

Fair Value Through Other
Comprehensive Income

Fair Value Through
Profit or Loss

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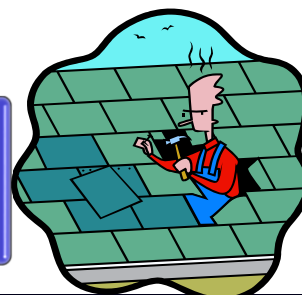
Chapter 5.5 Impairment

Recognition of Expected Credit Losses – General Approach

- An entity shall recognise a loss allowance for expected credit losses on
 - a financial asset that is measured in accordance with para. 4.1.2 or 4.1.2A,
 - a lease receivable,
 - a contract asset or
 - a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with para. 2.1(g), 4.2.1(c) or 4.2.1(d). (para. 5.5.1)

HKFRS 9 defines **expected credit losses** as:

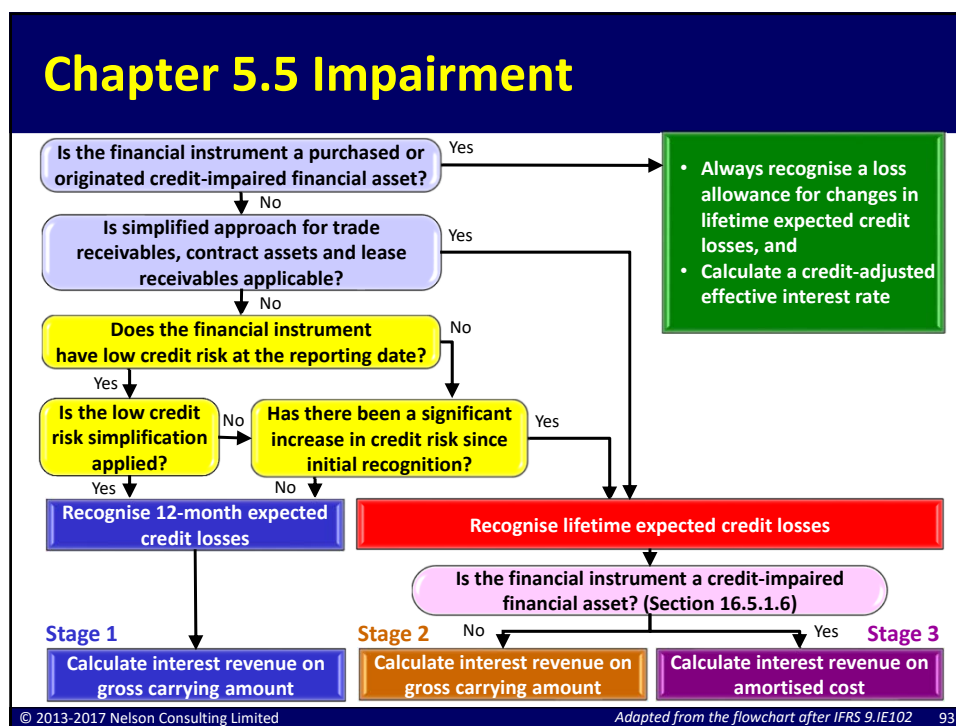
- The weighted average of credit losses with the respective risks of a default occurring as the weights.



Chapter 5.5 Impairment

- To understand and apply these requirements, an entity has to ascertain
 - the scope of the impairment in HKFRS 9,
 - the concept of expected credit losses,
 - the approach in recognition of expected credit losses,
 - the financial instruments with the scope in recognition of expected credit losses but not falling within the three-stage model,
 - the assessment of the credit risk on a financial instrument since initial recognition,
 - the determination of financial instruments being credit-impaired, and
 - the three-stage model in such recognition.

Chapter 5.5 Impairment



Chapter 5.5 Impairment

Scope in Recognition of Expected Credit Losses

- In HKFRS 9, not only financial assets but also some financial instruments may fall within the scope in recognition of expected credit losses.
- HKFRS 9 specifically requires to an entity to recognise a loss allowance for expected credit losses on the following financial assets:
 1. Financial asset at amortised cost;
 2. Financial asset (not being investment in equity instrument) at fair value through other comprehensive income ;
 3. Lease receivable,
 4. Contract asset, or
 5. Loan commitment and financial guarantee contract to which the impairment requirements apply in accordance with HKFRS 9

Chapter 5.5 Impairment

The Concept of Expected Credit Losses

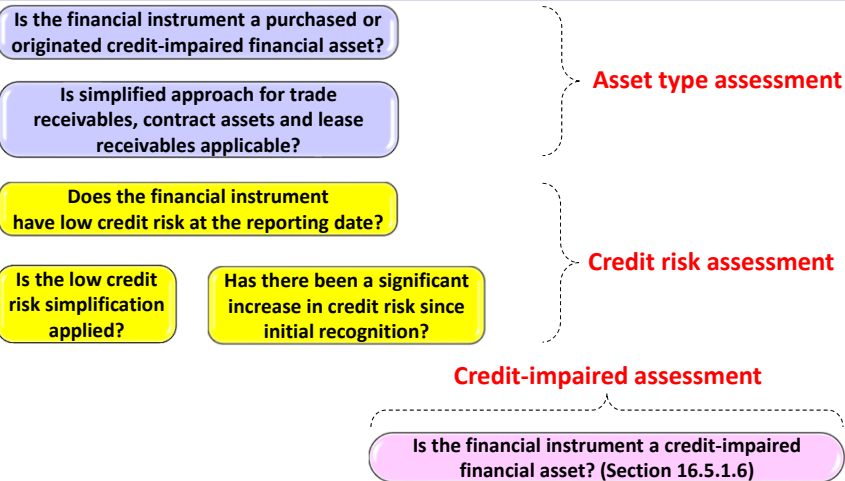
- The main change of the impairment requirements in HKFRS 9 is the introduction of the expected credit loss to replace the incurred loss model.
- The IASB considered that, for those financial assets being the debt instruments, the effect of changes in credit risk are more relevant to an investor's understanding of the likelihood of the collection of future contractual cash flows than the effects of other changes, for example changes in market interest rates.
- The expected credit losses can be further divided into two types:
 - 12-month expected credit losses (recognised in Stage 1 of the impairment stages); and
 - lifetime expected credit losses (recognised in Stage 2 and 3 of the impairment stages and for specific financial instruments)

Chapter 5.5 Impairment

Approach in Recognition of Expected Credit Losses

- To achieve the objective and comply the impairment requirements in HKFRS 9, an entity is required to have the following 3 kinds of assessment:
 1. "**Asset type assessment**" – to assess the type of the financial asset and determine whether it is
 - a) purchase or originated credit-impaired financial assets;
 - b) trade receivables, contract assets and lease receivables for which the entity applies simplified approach; or
 - c) other financial assets.
 2. "**Credit risk assessment**" – To assess the credit risk on the financial asset; and
 3. "**Credit-impaired assessment**" To determine whether the financial asset is credit impaired.

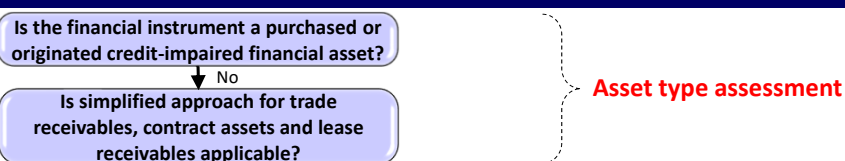
Chapter 5.5 Impairment



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Chapter 5.5 Impairment



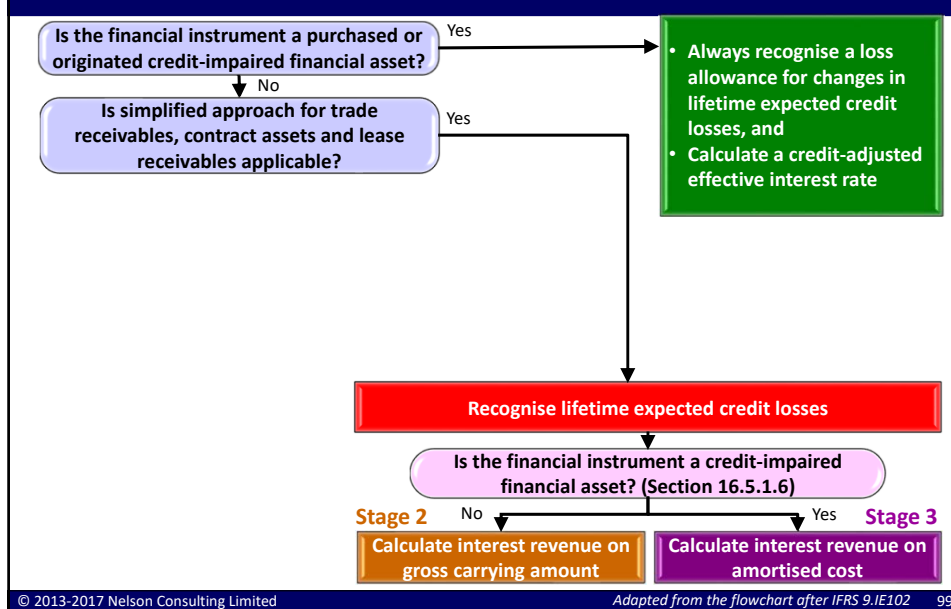
Asset type assessment

- The financial instruments with the scope in recognition of expected credit losses but not falling within the three-stage model
- Before having credit risk assessment, an entity is required to directly recognise lifetime expected credit losses for two types of financial instruments:
 1. Purchase or originated credit-impaired financial assets; and
 2. Trade receivables, contract assets and lease receivables for which the entity applies simplified approach.

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Chapter 5.5 Impairment



Chapter 5.5 Impairment

Example

Is simplified approach for trade receivables, contract assets and lease receivables applicable?

- Bonnie Corporation is a manufacturer and has a portfolio of trade receivables of \$30 million in 2015 and operates only in Singapore. Bonnies determines that:
 - The customer base consists of a large number of small clients.
 - The trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.
 - The trade receivables do not have a significant financing component in accordance with HKFRS 15.

Chapter 5.5 Impairment

Example

- In accordance with IFRS 9, the loss allowance for such trade receivables is always measured at an amount equal to lifetime time expected credit losses.
- To determine the expected credit losses for the portfolio, Bonnie uses a **provision matrix**.
- The provision matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.
- At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. In this case, it is forecast that economic conditions will deteriorate over the next year.

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Chapter 5.5 Impairment

Example

- On that basis, Bonnie estimates the following provision matrix:

	<u>Current</u>	<u>1–30 days past due</u>	<u>31–60 days past due</u>	<u>61–90 days past due</u>	<u>Over 90 days past due</u>
Default rate	1%	3%	5%	10%	15%

- Trade receivables from the large number of small customers amount to \$30 million and are measured using the provision matrix as follows:

	<u>Gross carrying amount</u>	<u>Default rate</u>	<u>Lifetime expected credit loss allowance</u>
Current	\$15,000,000	1%	\$150,000
1–30 days past due	7,500,000	3%	225,000
31–60 days past due	4,000,000	5%	200,000
61–90 days past due	2,500,000	10%	250,000
Over 90 days past due	<u>1,000,000</u>	15%	<u>150,000</u>
	\$30,000,000		\$975,000

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Chapter 5.5 Impairment

Does the financial instrument have low credit risk at the reporting date?

Is the low credit risk simplification applied?

Has there been a significant increase in credit risk since initial recognition?

Credit risk assessment

Credit risk assessment

- At each reporting date, for all financial instruments, other than purchased or originated credit-impaired financial assets, or financial assets that simplification approach is applied,
 - an entity is required to assess whether the credit risk on a financial instrument has increased significantly since initial recognition.

Chapter 5.5 Impairment

Credit risk assessment

- Risk of Default and Past Due Information
 - HKFRS 9 incorporates two rebuttable presumptions in assessing significant increases in credit risk and risk of default:
 - i. 30 Days past due rebuttable resumption in respect of significant increases in credit risk
 - Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due (HKFRS 9.5.5.11).
 - ii. 90 Days past due rebuttable resumption in respect of default occurred
 - In defining default, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Chapter 5.5 Impairment

Credit-impaired assessment – the determination of financial instruments being credit-impaired,

- In HKFRS 9, after assessing credit risk and ascertaining past due information, an entity has to determine whether the financial instrument is credit impaired.

Credit-impaired assessment

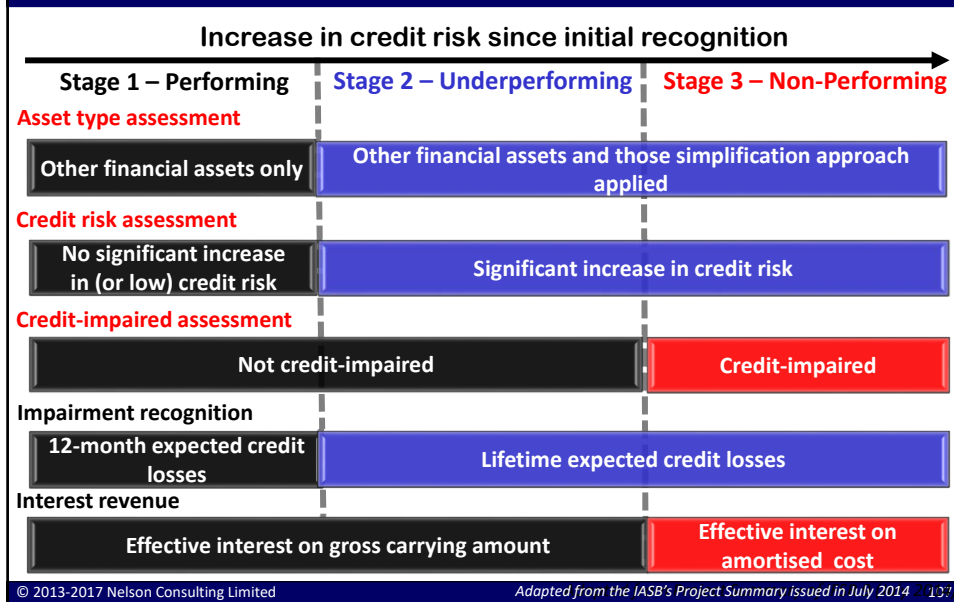
Is the financial instrument a credit-impaired financial asset? (Section 16.5.1.6)

Chapter 5.5 Impairment

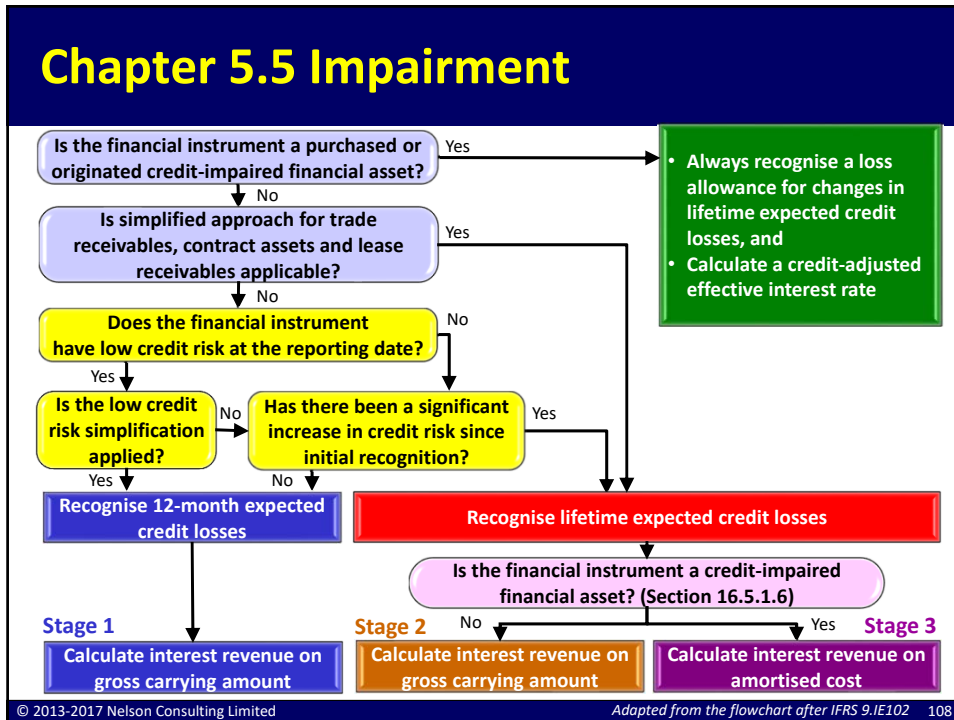
Three-Stage Model

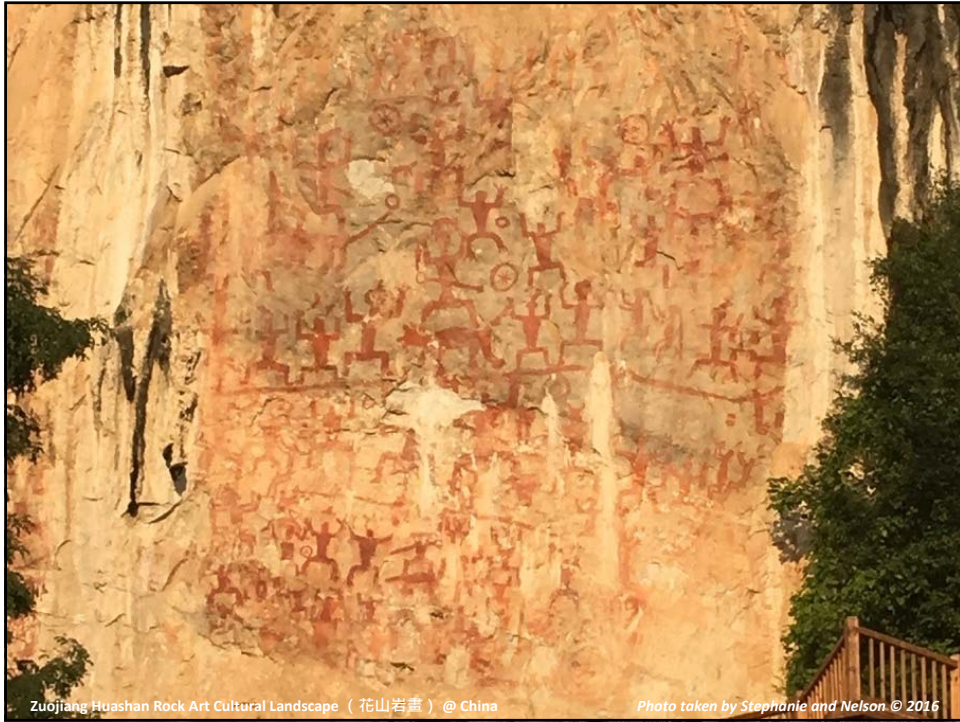
- By applying such impairment approach in HKFRS 9 to a financial instrument and based on the result of credit risk assessment, an entity may, as explained by the IASB, divide the impairment requirements into three impairment stages:
 - Stage 1 – Performing financial instrument stage;
 - Stage 2 – Underperforming financial instrument stage; and
 - Stage 3 – Non-performing financial instrument stage.

Chapter 5.5 Impairment



Chapter 5.5 Impairment





HKFRS 15 Revenue from Contracts with Customers



HKFRS 15 Issued in 2014



- HKFRS 15 establishes a comprehensive framework for determining
 - when to recognise revenue and
 - how much revenue to recognise.
- The core principle is that an entity recognises revenue
 - to depict the transfer of promised goods or services to customers
 - in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services
- Under HKFRS 15, an entity applies a **5-step approach** in recognising revenue

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HKFRS 15 Issued in 2014



- **Effective Date**
 - An entity shall apply HKFRS 15 for annual reporting periods beginning on or after 1 January ~~2017~~ **2018**. (HKICPA Update No. 174)
 - Earlier application is permitted.
 - If an entity applies HKFRS 15, it shall disclose that fact.



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HKFRS 15 Issued in 2014



- HKFRS 15 supersedes the following Standards:

- HKAS 11 *Construction Contracts*
- HKAS 18 *Revenue*
- HK(IFRIC)-Int 13 *Customer Loyalty Programmes*
- HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*
- HK(IFRIC)-Int 18 *Transfers of Assets from Customers*
- HK(SIC)-Int 31 *Revenue – Barter Transactions Involving Advertising Services*



Contents in HKFRS 15 Issued in 2014

A. Objective

B. Scope

C. Recognition

- Identifying the contract (Step 1)
- Identifying performance obligations (Step 2)
- Satisfaction of performance obligations (Step 5)

Today's update

D. Measurement

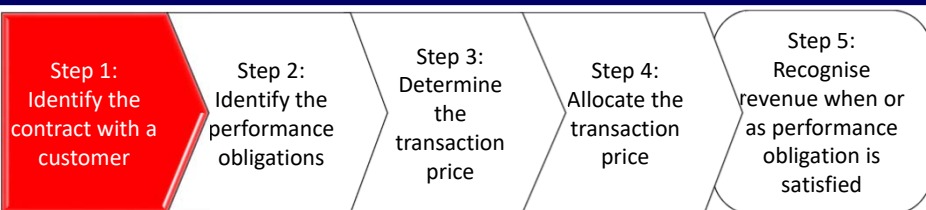
- Determining the transaction price (Step 4)
- Allocating the transaction price to performance obligations (Step 5)

E. Contract costs

F. Presentation

G. Disclosure

Step 1: Identify the Contract(s)

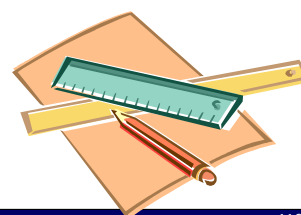


• Step 1: Identifying the Contract(s)

- A contract is an agreement between two or more parties that creates enforceable rights and obligations.
- The requirements of HKFRS 15 apply to each contract that has been agreed upon with a customer and meets specified criteria.
 - In some cases, HKFRS 15 requires an entity to combine contracts and account for them as one contract.
 - HKFRS 15 also provides requirements for the accounting for contract modifications. (HKFRS 15.IN7)

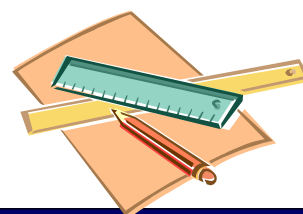
Step 1: Identify the Contract(s)

- An entity shall account for a contract with a customer that is within the scope of HKFRS 15 only when all of the following criteria (i.e. **contract criteria**) are met:
 - a. the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
 - b. the entity can identify each party's rights regarding the goods or services to be transferred;
 - c. the entity can identify the payment terms for the goods or services to be transferred;
 - d. the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and



Step 1: Identify the Contract(s)

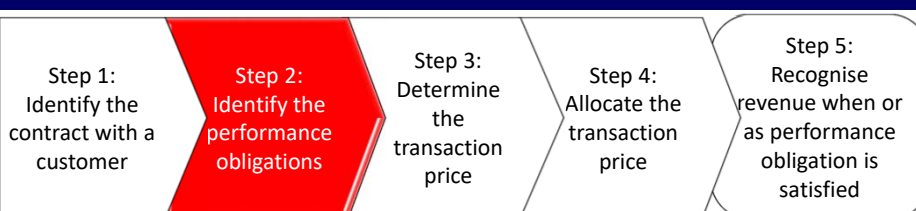
- An entity shall account for a contract with a customer that is within the scope of HKFRS 15 only when all of the following criteria (i.e. **contract criteria**) are met:
 - it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
 - In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.
 - The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see HKFRS 15.52) (HKFRS 15.9)



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Step 2: Identify Performance Obligations



- Step 2: Identifying the Performance Obligations in the Contract**
 - A contract includes promises to transfer goods or services to a customer.
 - If those goods or services are distinct, the promises
 - are performance obligations and are accounted for separately
 - A good or service is distinct if
 - the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and
 - the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. (HKFRS 15.IN7)

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Step 2: Identify Performance Obligations

- At contract inception, an entity shall
 - assess the goods or services promised in a contract with a customer, and
 - identify as a **performance obligation** each promise to transfer to the customer either:
 - a. a good or service (or a bundle of goods or services) that is distinct; or
 - b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see HKFRS 15.23) (HKFRS 15.22)



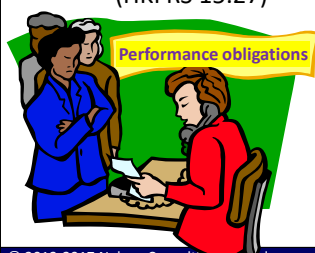
HKFRS 15 defines **performance obligation** as:

A promise in a contract with a customer to transfer to the customer either:

- a. a good or service (or a bundle of goods or services) that is distinct; or
- b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Step 2: Identify Performance Obligations

- A good or service that is promised to a customer is distinct if both of the following criteria are met:
 - a. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
 - b. the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract). (HKFRS 15.27)



Step 3: Determine Transaction Price



• Step 3: Determining the Transaction Prices

- The transaction price
 - is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer
 - can be a fixed amount of customer consideration, but it may sometimes include
 - variable consideration or
 - consideration in a form other than cash
 - is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer. (HKFRS 15.IN7)

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Step 3: Determine Transaction Price



• Step 3: Determining the Transaction Prices

- If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services.
- The estimated amount of variable consideration will be included in the transaction price
 - only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. (HKFRS 15.IN7)

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Step 3: Determine Transaction Price

- The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.
- When determining the transaction price, an entity shall consider the effects of all of the following:
 - a. variable consideration (see HKFRS 15.50–55 and 59);
 - b. constraining estimates of variable consideration (see HKFRS 15.56–58);
 - c. the existence of a significant financing component in the contract (see HKFRS 15.60–65);
 - d. non-cash consideration (see HKFRS 15.66–69); and
 - e. consideration payable to a customer (see HKFRS 15.70–72). (HKFRS 15.48)



Variable Consideration

Constraining Estimates of Variable Con.

Significant Financing Component

Non-cash Consideration

Consideration Payable to Customer

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Step 3: Determine Transaction Price

- An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:
 - a. **The expected value** — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.
 - An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large no. of contracts with similar characteristics.
 - b. **The most likely amount** — the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract).
 - The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (e.g. an entity either achieves a performance bonus or does not). (HKFRS 15.53)

Variable Consideration

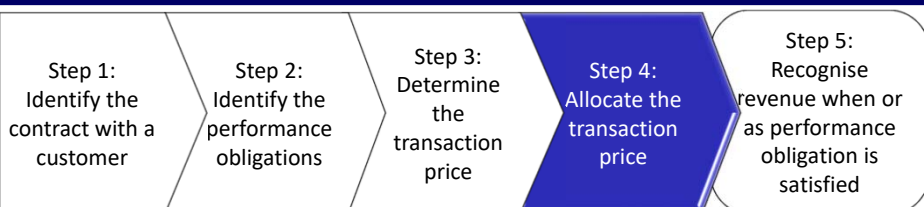
Expected Value

Most Likely Amount

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Step 4: Allocate Transaction Price to PO



• Step 4: Allocating the Transaction Price to Performance Obligations

- An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
 - If a stand-alone selling price is not observable, an entity estimates it.
- HKFRS 15 specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract. (HKFRS 15.IN7)

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Step 4: Allocate Transaction Price to PO

- The objective when allocating the transaction price is
 - for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. (HKFRS 15.73)

Based on Stand-alone
Selling Price (SASP)

Allocation of a
Discount

Allocation of Variable
Consideration



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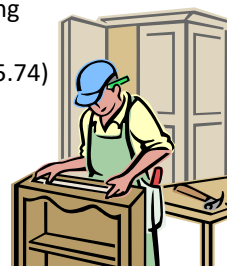
Step 4: Allocate Transaction Price to PO

Based on Stand-alone
Selling Price (SASP)

Allocation of a
Discount

Allocation of Variable
Consideration

- To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract on **a relative stand-alone selling price basis** in accordance with HKFRS 15.76–80, except as specified in
 - HKFRS 15.81–83 (for allocating discounts) and
 - HKFRS 15.84–86 (for allocating consideration that includes variable amounts). (HKFRS 15.74)



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Step 4: Allocate Transaction Price to PO

Based on Stand-alone
Selling Price (SASP)

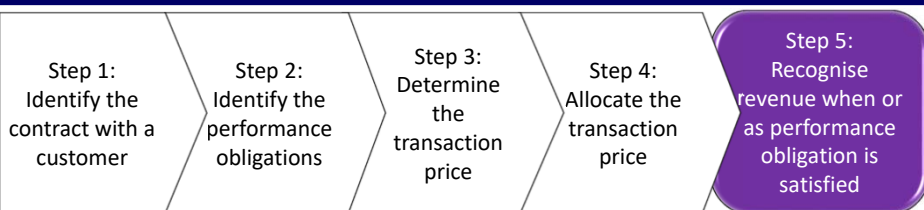
- Suitable methods for estimating SASP of a good or service include (not limited to):
 - Adjusted market assessment approach**
 - Expected cost plus a margin approach**
 - Residual approach**
 - Combination of the above**



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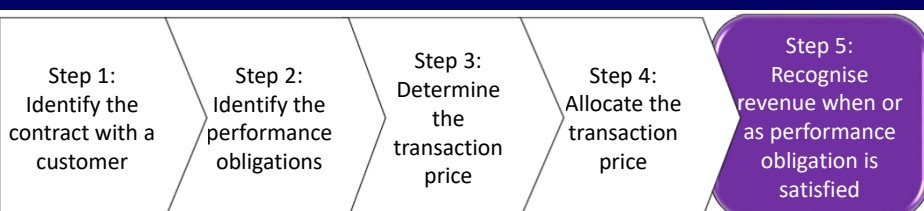
Step 5: Satisfy Performance Obligations



• Step 5: Satisfaction of performance obligations

- An entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer
 - which is when the customer obtains control of that good or service.
- The amount of revenue recognised is the amount allocated to the satisfied performance obligation. (HKFRS 15.IN7)

Step 5: Satisfy Performance Obligations



• Step 5: Satisfaction of performance obligations

- A performance obligation may be satisfied
 - at a point in time (typically for promises to transfer goods to a customer) or
 - over time (typically for promises to transfer services to a customer).
- For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method for measuring the entity's progress towards complete satisfaction of that performance obligation. (HKFRS 15.IN7)

Step 5: Satisfy Performance Obligations

- An entity shall recognise revenue
 - when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.
- An asset is transferred
 - when (or as) the customer obtains control of that asset (HKFRS 15.31)



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Step 5: Satisfy Performance Obligations

- For each performance obligation identified in accordance with HKFRS 15.22–30,
 - an entity shall determine at contract inception whether it
 - satisfies the performance obligation over time (in accordance with HKFRS 15.35–37) or
 - satisfies the performance obligation at a point in time (in accordance with HKFRS 15.38).
 - If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. (HKFRS 15.32)

Over Time

At a Point in Time



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Step 5: Satisfy Performance Obligations

- Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services).
- **Control** of an asset
 - refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.
 - includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
- When evaluating whether a customer obtains control of an asset,
 - an entity shall consider any agreement to repurchase the asset (see HKFRS 15.B64–B76). (HKFRS 15.33)

Over Time

At a Point in Time



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Step 5: Satisfy Performance Obligations

- An entity **transfers control** of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
 - a. the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see HKFRS 15.B3–B4);
 - b. the entity's performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced (see HKFRS 15.B5); or
 - c. the entity's performance does not create an asset with an alternative use to the entity (see HKFRS 15.36) and the entity has an enforceable right to payment for performance completed to date (see HKFRS 15.37). (HKFRS 15.35)

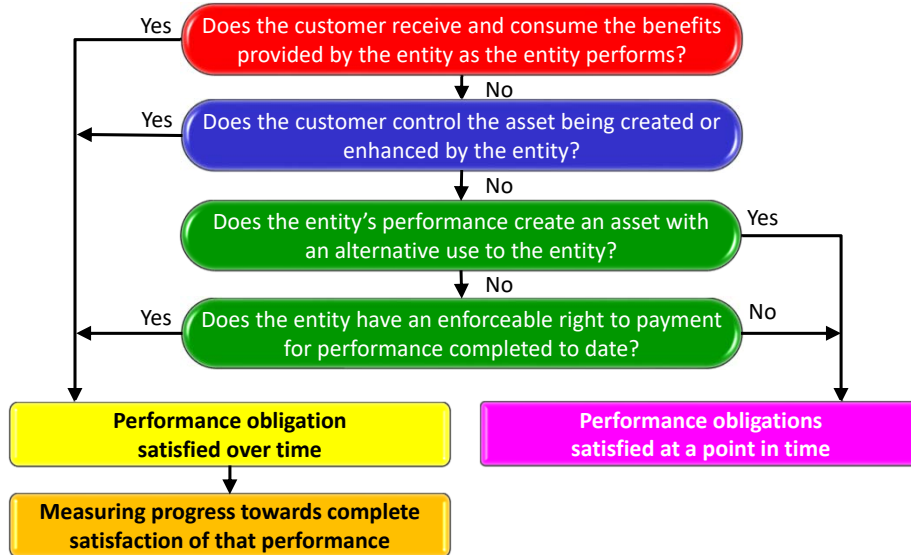
Over Time



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Step 5: Satisfy Performance Obligations



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Step 5: Satisfy Performance Obligations

Methods for Measuring Progress

- Appropriate methods of measuring progress include **output methods** and **input methods** (HKFRS 15.B14–B19 provide guidance)
- In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the customer. (HKFRS 15.41)
- When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a customer.
- Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a customer when satisfying that performance obligation. (HKFRS 15.42)

Measuring Progress

Over Time



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Step 5: Satisfy Performance Obligations

- If a performance obligation is not satisfied over time in accordance with HKFRS 15.35–37, an entity satisfies the performance obligation at a point in time.
- To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation,
 - the entity shall consider the **requirements for control** in HKFRS 15.31–34. (HKFRS 15.38)

At a Point in Time



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Step 5: Satisfy Performance Obligations

- In addition, an entity shall consider **indicators of the transfer of control**, which include, but are not limited to, the following:
 - a. The entity has a present right to payment for the asset
 - b. The customer has legal title to the asset
 - c. The entity has transferred physical possession of the asset
 - d. The customer has the significant risks and rewards of ownership of the asset
 - e. The customer has accepted the asset

At a Point in Time



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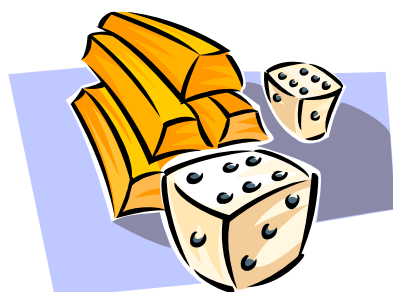
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C. Recognition and D. Measurement



- When (or as) a performance obligation is satisfied,
 - an entity shall **recognise as revenue**
 - the amount of the **transaction price** (which excludes estimates of variable consideration that are constrained in accordance with HKFRS 15.56–58) that is **allocated to that performance obligation**. (HKFRS 15.46)

Classification and Measurement of SBP Transactions (Amendments to HKFRS 2 Share-based Payment)



Amendments to HKFRS 2

- In July 2016, following the IASB's equivalent amendments, the HKICPA issued *Classification and Measurement of Share-based Payment Transactions* (Amendments to HKFRS 2)
- The amendments provide requirements on the accounting for
 1. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; Cash-settled SBP Transactions
 2. share-based payment transactions with a net settlement feature for withholding tax obligations; Net Settlement with Withholding Tax
and
 3. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Modification Results in Classification Change

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Amendments to HKFRS 2

- Originally, HKFRS 3 requires that, for cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability (HKFRS 2.30)
- The above requirement is amended and it is then "subject to the requirements of paragraphs 31–33D" Cash-settled SBP Transactions
 - A section of "treatment of vesting and non-vesting conditions" in HKFRS 2.33A to 2.33D for cash-settled share-based payment transactions are newly added requirements.

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Amendments to HKFRS 2

- **Treatment of vesting and non-vesting conditions –**

HKFRS 2.33A:

- A cash-settled share-based payment transaction might be conditional upon satisfying specified vesting conditions.
- There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price.
- Vesting conditions, other than market conditions,
 - shall **not be taken** into account when estimating the fair value of the cash-settled share-based payment at the measurement date.
 - instead, shall **be taken** into account by adjusting the number of awards included in the measurement of the liability arising from the transaction

Cash-settled SBP
Transactions

Amendments to HKFRS 2

- **Share-based payment transactions with a net settlement feature for withholding tax obligations**

- Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf.
- To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (ie the share-based payment arrangement has a 'net settlement feature') (HKFRS 2.33E)

Net Settlement with
Withholding Tax

Amendments to HKFRS 2

- **Share-based payment transactions with a net settlement feature for withholding tax obligations**

- As an exception to the requirements in HKFRS 2.34, the transaction described in HKFRS 2.33E shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature (HKFRS 2.33F)
- The entity applies HKFRS 2.29 to account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment.
- Therefore, the payment made shall be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld (HKFRS 2.33G)

Net Settlement with
Withholding Tax

Amendments to HKFRS 2

- **Accounting for a modification of a SBP transaction that changes its classification from cash-settled to equity-settled**

- If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction,
 - the transaction is accounted for as such from the date of the modification (HKFRS 2.B44A)

Modification Results in
Classification Change

Amendments to HKFRS 2

- Accounting for a modification of a SBP transaction that changes its classification from cash-settled to equity-settled

- In accounting for such reclassification, specifically:
 - a) The equity-settled share-based payment transaction is
 - measured by reference to the fair value of the equity instruments granted at the modification date
 - recognised in equity on the modification date to the extent to which goods or services have been received.
 - b) The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
 - c) Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss (HKFRS 2.B44A)

Modification Results in Classification Change

Applying HKFRS 9 with HKFRS 4

(Amendments to HKFRS 4)



Amendments to HKFRS 4

- The amendments provide two optional approaches to deal with the mismatched effective dates of HKFRS 9 and the new insurance contracts standard (forthcoming) replace HKFRS 4:
 - a. The overlay approach:** all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued; and
 - b. The deferral approach:** companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39 *Financial Instruments: Recognition and Measurement*.
- The amendments are effective for annual periods beginning on or after 1 January 2018.
- Earlier application is permitted.

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HKFRS 16 Leases



Introduction



- IFRS 16 Leases was issued in January 2016
- Lessee accounting
 - IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
 - A lessee is required to recognise (initially measure on a present value basis)
 - a right-of-use asset representing its right to use the underlying leased asset and
 - a lease liability representing its obligation to make lease payments.
- Lessor accounting
 - IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and accordingly, a lessor continues
 - to classify its leases as operating leases or finance leases, and
 - to account for those two types of leases differently.

Introduction

- HKFRS 16 issued in May 2016
- Effective Date of IFRS/HKFRS 16
 - An entity shall apply HKFRS 16 for annual reporting periods beginning on or after 1 January 2019.
 - Earlier application is permitted for entities that apply HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.
 - If an entity applies HKFRS 16 earlier, it shall disclose that fact.



Introduction

- HKFRS 16 supersedes the following Standards and Interpretations:
 - (a) HKAS 17 *Leases*;
 - (b) HKFRIC 4 *Determining whether an Arrangement contains a Lease*;
 - (c) HK(SIC)-15 *Operating Leases— Incentives*; and
 - (d) HK(SIC)-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.



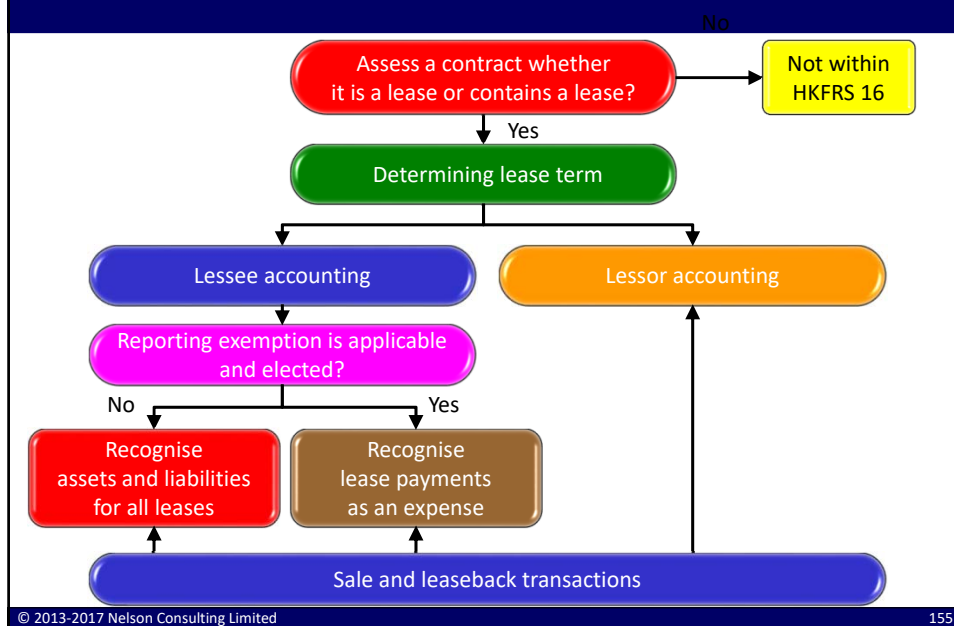
HKFRS 16 – Contents

1. Objective
2. Scope
3. Recognition Exemptions
4. Identifying a Lease
5. Lease Term
6. Lessee
7. Lessor
8. Sales and Leaseback Transactions
9. Effective Date and Transition

**Today's
update**



HKFRS 16



3. Reporting Exemptions

- A lessee **may elect not to apply** the requirements in HKFRS 16 (HKFRS 16.22–49) to:
 - (a) **short-term leases**; and
 - (b) leases for which the **underlying asset is of low value** (as described in HKFRS 16.B3–B8).

HKFRS 16 defines **short-term lease** as:

- A lease that, at the commencement date, has a lease term of 12 months or less.
- A lease that contains a purchase option is not a short-term lease.

3. Reporting Exemptions

- **Leases for which the underlying asset is of low value**
 - A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. (HKFRS 16.B3)
 - The assessment of whether an underlying asset is of low value is performed on an absolute basis.
 - Leases of low-value assets qualify for the accounting treatment in HKFRS 16.6 regardless of whether those leases are material to the lessee.
 - The assessment is not affected by the size, nature or circumstances of the lessee.
 - Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value. (HKFRS 16.B4)

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3. Reporting Exemptions

Example

- **Leases for which the underlying asset is of low value**
 - A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value.
 - For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value. (HKFRS 16.B6)
 - If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. (HKFRS 16.B7)
 - Examples of low-value underlying assets can include
 - tablet and personal computers,
 - small items of office furniture and
 - telephones. (HKFRS 16.B8)

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4. Identifying a Lease

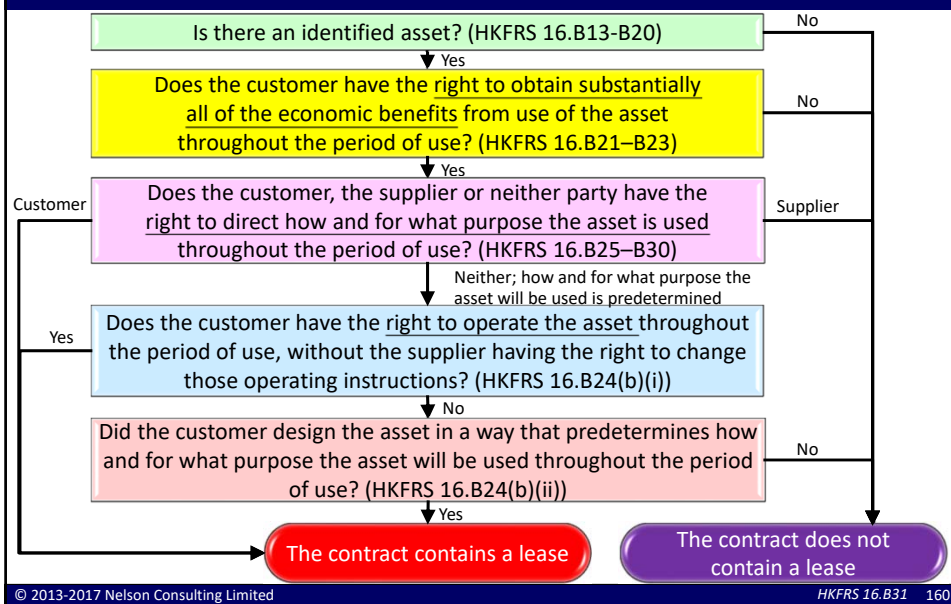


- At inception of a contract, an entity shall assess whether the contract is, or contains, a lease.
- A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

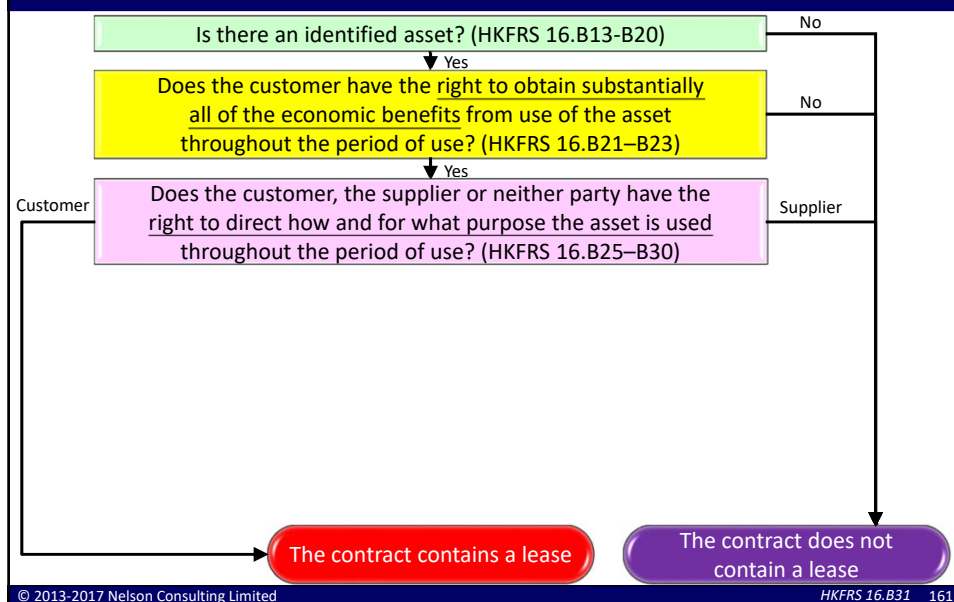
HKFRS 16 defines **lease** as:

- A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

4. Identifying a Lease



4. Identifying a Lease



5. Lease Term

- An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
 - (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
 - (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
 - In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in HKFRS 16.B37-B40.

6. Lessee – Recognition

- **Recognition**

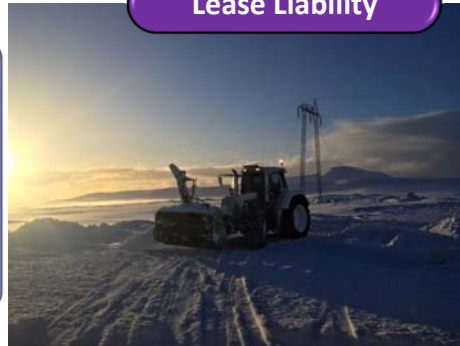
- At the commencement date, a lessee shall recognise
 - a right-of-use asset, and
 - a lease liability. (HKFRS 16.22)

Right-of-Use Asset

Lease Liability

HKFRS 16 defines right-of-use asset as:

- An asset that represents a lessee's right to use an underlying asset for the lease term.



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6. Lessee – Initial Measurement

- **Initial Measurement of the Right-of-Use Asset**

- At the commencement date, a lessee shall measure the right-of-use asset at cost. (HKFRS 16.23)

Right-of-Use Asset

HKFRS 16 defines commencement date of a lease as:

- The date on which a lessor makes an underlying asset available for use by a lessee.



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6. Lessee – Initial Measurement

- The **cost** of the right-of-use asset shall comprise:
 - (a) the amount of the initial measurement of the lease liability, as described in HKFRS 16.26;
 - (b) any lease payments made at or before the commencement date, less any lease incentives received;
 - (c) any initial direct costs incurred by the lessee; and
 - (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.
 - The lessee incurs the obligation for those costs either
 - at the commencement date or
 - as a consequence of having used the underlying asset during a particular period. (HKFRS 16.24)

6. Lessee – Initial Measurement

- **Initial Measurement of the Lease Liability**
 - At the commencement date, a lessee shall measure the lease liability at the **present value** of the lease payments that are not paid at that date.
 - The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. Lease Liability
 - If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. (HKFRS 16.26)

6. Lessee – Initial Measurement

- At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
 - (a) fixed payments (including in-substance fixed payments as described in HKFRS 16.B42), less any lease incentives receivable;
 - (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in HKFRS 16.28);
 - (c) amounts expected to be payable by the lessee under residual value guarantees;
 - (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in HKFRS 16.B37–B40); and
 - (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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6. Lessee – Subsequent Measurement

- **Subsequent Measurement of the Right-of-Use Asset**
 - After the commencement date, a lessee shall measure the right-of-use asset
 - applying a cost model,
 - unless it applies either of the measurement models described in HKFRS 16.34 and 35. (HKFRS 16.29)

Right-of-Use Asset

Cost
Model

Measurement
Models

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6. Lessee – Subsequent Measurement

- To apply a cost model, a lessee shall measure the right-of-use asset at cost:
 - less any accumulated depreciation and any accumulated impairment losses; and
 - adjusted for any remeasurement of the lease liability specified in HKFRS 16.36(c).

Right-of-Use Asset

Cost Model

6. Lessee – Subsequent Measurement

- If a lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee **shall** also apply that **fair value model** to right-of-use assets that meet the definition of investment property in IAS 40.
- If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee **may elect to apply** that **revaluation model** to all of the right-of-use assets that relate to that class of property, plant and equipment.

Right-of-Use Asset

Measurement Models

6. Lessee – Subsequent Measurement

- **Subsequent Measurement of the Lease Liability**
 - After the commencement date, a lessee shall measure the lease liability by:
 - (a) increasing the carrying amount to reflect interest on the lease liability;
 - (b) reducing the carrying amount to reflect the lease payments made; and
 - (c) remeasuring the carrying amount
 - to reflect any reassessment or lease modifications specified in HKFRS 16.39–46, or
 - to reflect revised in-substance fixed lease payments (see HKFRS 16.B42). (HKFRS 16.36)

Lease Liability

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Summary – Effect on Fin. Position

IFRS

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets	→ 🏠	---	→ → → 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$\$\$
Off balance sheet rights / obligations	---	→ 🏠 🏠 \$\$\$\$	---

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Summary – Effect on Profit or Loss



	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excluding depreciation and amortisation)	---	Single expense	---
EBITDA			↑↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔

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Lessor Accounting in HKFRS 16

- The same set of indicators to a finance lease is also inherited from HKAS 17.
- However, there are some changes introduced by HKFRS 16 to the lessor accounting requirements and changes include:
 1. The requirements in identifying a lease in IFRS 16 are also applicable to lessor (see Section 4.8.2);
 2. Clarified measurement of a finance lease for lessor;
 3. Sublease classification;
 4. Lease modification; and
 5. Enhanced disclosures for lessors to improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

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Clarified Measurement for Lessor

- In HKFRS 16, at the commencement date of a lease, a lessor is required to recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease (HKFRS 16.67)
- This requirement and the definition of net investment in the lease are still similar to that of IAS 27
- However, HKFRS 16 clarifies the lease payments included in the measurement of the net investment in a finance lease

Clarified Measurement for Lessor

- HKFRS 16 requires that, at the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:
 - a. fixed payments, less any lease incentives payable;
 - b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
 - c. any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
 - d. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
 - e. payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Clarified Measurement for Lessor

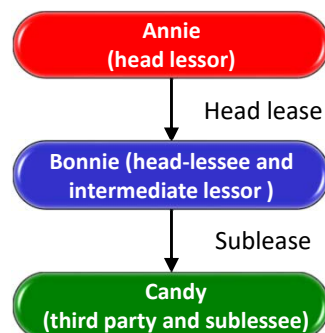
- The definition of lease payments for a lessor is similar as the one for lessee (see 4.8.4.2a), but the lease payments for a lessor is defined to further include and not include the following items:
 - include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee; but
 - do not include payments allocated to non-lease components (Appendix A to IFRS 16).
- In substance, the effect of IFRS 16 and IAS 17 in respect of measurement of the net investment in a finance lease may be similar.

Sublease Classification

- A lessor of an asset being a lessee of the same asset and subleasing it to another lessee is regarded as intermediate lessor. IFRS 16 imposes new requirements on the sublease classification for an intermediate lessor.

HKFRS 16 defines **sublease** as:

- A transaction for which an underlying asset is re-leased by a lessee ("intermediate lessor") to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect (Appendix A to IFRS 16)



Sublease Classification

- In classifying a sublease, HKFRS 16 now requires an intermediate lessor to classify the sublease as a finance lease or an operating lease as follows:
 - a. In case the head lease is a short-term lease that the entity,
 - as a lessee, has accounted for applying HKFRS 16.6 (i.e. applying short-term lease exemption), the sublease is classified as an operating lease.
 - b. In case the head lease is not a lease as described in (a) above,
 - the sublease is classified by reference to the right-of-use asset (i.e. the leased asset recognised in the statement of financial position) arising from the head lease,
 - rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease)



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