NEWSLETTER – MAY 2009

HKFRS 7 "Financial Instruments: Disclosures"

- Effective for accounting periods beginning on or after 1 January 2009
- Based on the disclosure requirements of US accounting standard SFAS 157
- Need to disclose any changes in valuation techniques used
- New three tier hierarchy for valuations of financial instruments
- Level 1 – based on quoted prices of identical instruments
- Level 2 – based on observable market inputs
- Level 3 – based on inputs which are not observable in the market
- A maturity analysis is required for financial guarantee contracts and derivative financial liabilities

Embedded Derivatives Amendments

- Effective for accounting periods ending on or after 30 June 2009
- When reclassifying a financial instrument from FVTPL need to reassess for relationship of embedded derivatives

Amendments to HKFRS 7 "Financial Instruments: Disclosures"

In March 2009 the HKICPA issued amendments to HKFRS 7. The amendments are mandatory for entities whose equity or debt securities are publicly traded and also for any companies who are in the process of issuing such securities. The amendments are applicable for accounting periods commencing on or after 1 January 2009 with early adoption permitted.

The amendments clarify that fair value disclosures are required for each class of financial instruments separately and also that the disclosures should provide details of any changes in the techniques used to establish fair values and the reasons for such changes;

The new required analysis for how financial instruments have been valued is similar to the requirements of US Accounting Standard SFAS 157 "Fair Value Measurements".

A new, three tier hierarchy for fair value measurement is adopted:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability directly or indirectly; and
- Level 3: Inputs for the asset or liability that are not based on observable market data.

A reporting entity must disclose which level in the hierarchy was used for each fair value measurement in the statement of financial position and any transfers between hierarchy levels. The reporting entity should also disclose a reconciliation from opening to closing balances for fair value measurements in Level 3 of the hierarchy.

Existing requirements for liquidity risk disclosure have been amended in order to try and ensure that users of the financial statements can evaluate the nature and extent of liquidity risk related to financial instruments. In particular, entities should now provide a maturity analysis for non-derivative financial liabilities, including issued financial guarantee contracts, and another for derivative financial liabilities.

Amendments to HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" and HKAS 39 "Financial Instruments: Recognition and Measurement"

In March 2009 the HKICPA issued amendments to HK(IFRIC)-Int 9 and HKAS 39. The amendments apply retrospectively and are required to be applied for annual periods ending on or after 30 June 2009.

These amendments clarify that when there is a reclassification of a financial asset out of the "at Fair Value Through Profit or Loss" ("FVTPL") category (which is now permitted following amendments to HKAS 39 in October 2008), an entity is required to assess whether there is an embedded derivative which is closely related to the host contract at the date of the reclassification.

Prior to the amendments, IFRIC 9 prohibited the reassessment of whether an embedded derivative is required to be separated from the host contract unless there is a change in the terms of the contract which effects the cash flows. The amendments to IAS 39 clarifies that if an entity is unable to measure separately the embedded derivative that would have to be separated on reclassification of a host contract out of the FVTPL category, then reclassification is prohibited.

Should you wish to discuss the implications of either the amendments to HKFRS 7 or the revised accounting requirements for embedded derivatives in more detail, please call your usual Moore Stephens contact partner and/or Michael Pyburn and Erik Tang in the Technical Department.