

COMPARISON OF HKFRS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following table compares extant International Financial Reporting Standards (IFRS) with HKFRSs, taking account of Standards released up to 31 October 2003. Where HKFRSs are not consistent with IFRS, details of current Exposure Drafts and public comments made by the Financial Accounting Standards Committee (FASC) of the Hong Kong Society of Accountants with regard to planned future developments are summarised.

The table below also highlights those situations where differences identified would be eliminated by current projects of the International Accounting Standards Board (IASB). However, readers should be aware that those IASB projects incorporate other proposals for change that would require further significant amendments to HKFRSs if convergence with IFRS is to be maintained.¹

¹ Some of those projects have already been completed as of first quarter of 2004.

IFRS	Equivalent HKFRS	Comment
IAS 1 Presentation of Financial Statements	SSAP 1 Presentation of Financial Statements	The Standards are consistent, except that: <ul style="list-style-type: none"> • certain detailed disclosures in SSAP 1 have been adapted as appropriate to the Hong Kong environment; and • the rules for offsetting assets and liabilities differ.
IAS 2 Inventories	SSAP 22 Inventories	The Standards are consistent in all material respects.
IAS 7 Cash Flow Statements	SSAP 15 Cash Flow Statements	The Standards are consistent, except that there are no exemptions from the scope of IAS 7. Under SSAP 15, non-regulated enterprises with turnover of less than HK\$20 million per annum, and certain charities, are exempt from the requirement to prepare a cash flow statement.

IFRS	Equivalent HKFRS	Comment
<p>IAS 8</p> <p>Net Profit or Loss for the Period, Fundamental Errors, and Changes in Accounting Policies</p>	<p>SSAP 2</p> <p>Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</p>	<p>The Standards are consistent except that IAS 8 allows, as an alternative to the treatment prescribed in SSAP 2, that the amount of the correction of a fundamental accounting error or the cumulative effect of a change in accounting policy may be included in the current period's results.</p> <p>The allowed alternative treatment described in the previous paragraph would be prohibited under proposed amendments to IAS 8 in the IASB's Improvements Project.</p>
<p>IAS 10</p> <p>Events After the Balance Sheet Date</p>	<p>SSAP 9</p> <p>Events After the Balance Sheet Date</p>	<p>The Standards are consistent in all material respects.</p>
<p>IAS 11</p> <p>Construction Contracts</p>	<p>SSAP 23</p> <p>Construction Contracts</p>	<p>The Standards are consistent in all material respects.</p>
<p>IAS 12</p> <p>Income Taxes</p>	<p>SSAP 12</p> <p>Income Taxes</p>	<p>The Standards are consistent in all material respects.</p> <p>The explanatory guidance and illustrative examples set out in SSAP 12 (Revised) contain material not based on the examples in IAS 12 but based on those in Australian Standard AASB 1020 <i>Income Taxes</i>.</p>
<p>IAS 14</p> <p>Segment Reporting</p>	<p>SSAP 26</p> <p>Segment Reporting</p>	<p>The Standards are generally consistent. In drafting SSAP 26, some minor modifications were made to the IFRS to ensure that SSAP 26 is consistent with other HKFRSs.</p>

IFRS	Equivalent HKFRS	Comment
<p>IAS 15</p> <p>Information Reflecting the Effects of Changing Prices</p>	<p>No equivalent Standard</p>	<p>As part of its Improvements Project, the IASB has proposed the withdrawal of IAS 15. Consequently, there are no plans for an equivalent Hong Kong Standard.</p>
<p>IAS 16</p> <p>Property, Plant and Equipment</p>	<p>SSAP 17</p> <p>Property, Plant and Equipment</p>	<p>The Standards are consistent, except that:</p> <ul style="list-style-type: none"> • IAS 16 does not include any of SSAP 17's transitional provisions; • SSAP 17 contains guidance on transfers of assets between categories which is not included in IAS 16; and • there are no exemptions from the scope of IAS 16 as there are from SSAP 17.
<p>IAS 17</p> <p>Leases</p>	<p>SSAP 14</p> <p>Leases</p>	<p>The Standards are consistent except that SSAP 14 requires that properties held under Hong Kong government leases should generally be accounted for as tangible fixed assets, whereas, under the lease classifications of IAS 17, they would generally be treated as operating leases.</p> <p>The IASB's Improvements Project proposes new guidance on leases of land and buildings. Where lease payments cannot be allocated reliably between the land and buildings elements of a single lease covering both, the entire lease is generally to be classified as a finance lease. This change will address some of the problems Hong Kong faces in this area (see also IAS 40).</p>

IFRS	Equivalent HKFRS	Comment
	SSAP 18 Revenue	The Standards are consistent in all material respects.
IAS 19 Employee Benefits	SSAP 34 Employee Benefits	The Standards are consistent in all material respects.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	SSAP 35 Accounting for Government Grants and Disclosure of Government Assistance	The Standards are consistent in all material respects.
IAS 21 The Effects of Changes in Foreign Exchange Rates	SSAP 11 Foreign Currency Translation	<p>The requirements of the Standards are broadly in line, although IAS 21 is more comprehensive than SSAP 11. Some differences of detail are:</p> <ul style="list-style-type: none"> • the use of a 'contract rate' for translation of a transaction, as required by SSAP 11, is not permitted by IAS 21; • IAS 21 allows exchange losses to be added to the carrying amount of an asset in certain restricted circumstances; and • the rules for offsetting exchange movements on foreign currency assets hedged by foreign currency borrowings are more restrictive under IAS 21. <p>Under the IASB's Improvements Project, the alternative of capitalising certain exchange differences as referred to above would be eliminated.</p>

IFRS	Equivalent HKFRS	Comment
<p>IAS 22</p> <p>Business Combinations</p>	<p>SSAP 30</p> <p>Business Combinations</p>	<p>The requirements of the Standards are materially consistent except that:</p> <ul style="list-style-type: none"> • the definition of ‘subsidiary’ to be used by Hong Kong incorporated companies is dictated by the Companies Ordinance and may, in certain circumstances, result in the exclusion from consolidation of investees that would be consolidated under IFRS; • IAS 22 covers both the purchase (acquisition) and merger (pooling of interests) methods of accounting, whereas SSAP 30 addresses only purchase accounting; and • SSAP 30 does not permit IAS 22’s benchmark treatment for the allocation of the cost of an acquisition, whereby the minority interest is stated at the minority’s share of the pre-acquisition carrying amounts of the assets and liabilities of the subsidiary. <p>Under the IASB's Business Combinations project, the last two of these differences would be eliminated. However, the issue concerning the definition of ‘subsidiary’ for Hong Kong incorporated companies can only be resolved by a change in Hong Kong law.</p>
<p>IAS 23</p> <p>Borrowing Costs</p>	<p>SSAP 19</p> <p>Borrowing Costs</p>	<p>The treatment specified by SSAP 19 follows closely the allowed alternative accounting treatment permitted under IAS 23. The benchmark treatment under IAS 23, i.e. to expense all borrowing costs in the period in which they are incurred, is not permitted under Hong Kong GAAP.</p>

IFRS	Equivalent HKFRS	Comment
<p>IAS 24</p> <p>Related Party Disclosures</p>	<p>SSAP 20</p> <p>Related Party Disclosures</p>	<p>The Standards are consistent, except that:</p> <ul style="list-style-type: none"> • parties subject to common joint control or common significant influence are not regarded as related parties under IAS 24, but are specifically included in the SSAP 20 definition; • IAS 24 requires the disclosure of related party relationships where control exists, irrespective of whether or not there have been transactions between the related parties, whereas SSAP 20 does not require any disclosures in the absence of transactions; and • IAS 24 exempts from disclosure transactions between other state-controlled enterprises, an exemption which is not reflected in SSAP 20. <p>Proposed amendments to the definition of related party in the IASB Improvements Project will eliminate most of the inconsistencies as regards scope noted above. The Improvements Project also proposes to remove the exemption for state-controlled enterprises. However, the difference as regards disclosure of control in the absence of transactions between the parties is likely to persist.</p>
<p>IAS 26</p> <p>Accounting and Reporting by Retirement Benefit Plans</p>	<p>No equivalent standard</p>	<p>In Hong Kong, the measurement and disclosure principles for the reports of retirement benefit plans are included in Industry Accounting Guideline 2.302 <i>Financial Statements of Retirement Schemes</i>.</p>

IFRS	Equivalent HKFRS	Comment
<p>IAS 27</p> <p>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</p>	<p>SSAP 32</p> <p>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</p>	<p>The Standards are broadly consistent, except that:</p> <ul style="list-style-type: none"> the definition of subsidiary to be used by Hong Kong incorporated companies is dictated by the Companies Ordinance and may, in certain circumstances, result in the exclusion from consolidation of investees that would be consolidated under IAS 27; IAS 27 allows a parent that is virtually wholly- owned (generally taken to be a 90% holding) not to present consolidated financial statements, provided that the approval of the minority is obtained. SSAP 32 allows no such exception – exemption from the requirement to prepare consolidated financial statements is only available to parents that are themselves wholly-owned subsidiaries; the accounting treatments permitted for investments in subsidiaries in a parent’s separate financial statements under IAS 27 (cost, equity method or as available-for-sale investments under IAS 39) differ from those permitted under SSAP 32 (cost or in accordance with SSAP 24); and IAS 27 requires that investments in subsidiaries that operate under severe long-term restrictions should be accounted for in accordance with IAS 39, whereas SSAP 32 specifies that they should be accounted for under SSAP 24, which may, in certain circumstances, result in their being accounted for on a cost basis.

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		<p>As noted above in relation to Business Combinations, the difference in respect of the definition of a subsidiary for Hong Kong incorporated companies will not be eliminated until there is a change in the Hong Kong law.</p> <p>Once the HKSA has adopted IAS 39 (see below), it is likely that the differences as regards the measurement of investments in subsidiaries will be eliminated.</p> <p>The IASB's Improvements Project is proposing further changes to the rules as regards exemption from the requirement to present consolidated financial statements, which will need to be considered by the HKSA prior to proposing any change in this regard.</p>
<p>IAS 28</p> <p>Accounting for Investments in Associates</p>	<p>SSAP 10</p> <p>Accounting for Investments in Associates</p>	<p>The Standards are consistent except that:</p> <ul style="list-style-type: none"> the treatments permitted for accounting for investments in associates in the investor's separate financial statements under IAS 28 (cost, equity method or as available-for-sale investments under IAS 39) differ from those permitted under SSAP 10 (cost or in accordance with SSAP 24); and

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		<ul style="list-style-type: none"> IAS 28 requires that investments in associates that operate under severe long-term restrictions should be accounted for in accordance with IAS 39, whereas SSAP 10 specifies that they should be accounted for under SSAP 24, which may, in certain circumstances, result in their being accounted for on a cost basis. <p>As noted above in relation to subsidiaries, once the HKSA has adopted IAS 39 (see below), it is likely that these differences will be eliminated.</p>
<p>IAS 29</p> <p>Financial Reporting in Hyperinflationary Economies</p>	<p>No equivalent standard</p>	<p>The objective of IAS 29 is to establish specific standards for enterprises reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.</p> <p>The HKSA issued an Exposure Draft based on IAS 29.</p>
<p>IAS 30</p> <p>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</p>	<p>No equivalent standard</p>	<p>The objective of IAS 30 is to prescribe appropriate presentation and disclosure standards for banks and similar financial institutions, which supplement the requirements of other Standards. The intention is to provide users with appropriate information to assist them in evaluating the financial position and performance of banks, and to enable them to obtain a better understanding of the special characteristics of the operations of banks.</p> <p>Equivalent requirements in Hong Kong are established by the Hong Kong Monetary Authority and other regulatory bodies.</p>

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<p>IAS 31</p> <p>Financial Reporting of Interests in Joint Ventures</p>	<p>SSAP 21</p> <p>Accounting for Interests in Joint Ventures</p>	<p>The Standards are consistent in all respects, other than in relation to the treatment of jointly controlled entities:</p> <ul style="list-style-type: none"> the treatment specified by SSAP 21 for jointly controlled entities (equity accounting) follows closely the allowed alternative treatment permitted under IAS 31. The benchmark treatment under IAS 31, to account for such interests using proportionate consolidation, is not permitted under Hong Kong GAAP; and for the purposes of the separate financial statements of the venturer, IAS 31 does not indicate a preference for the treatment of jointly controlled entities, whereas SSAP 21 specifies that such interests should be accounted for either using the cost method or in accordance with SSAP 24.
<p>IAS 32</p> <p>Financial Instruments: Disclosure and Presentation</p>	<p>No equivalent standard</p>	<p>SSAP 24 (see below) includes some disclosure requirements in relation to investments in securities, but does not address any of the wider issues dealt with in IAS 32.</p> <p>The HKSA has issued an Exposure Draft based on IAS 32.</p>
<p>IAS 33</p> <p>Earnings Per Share</p>	<p>SSAP 5</p> <p>Earnings Per Share</p>	<p>The Standards are consistent in all material respects.</p>
<p>IAS 34</p> <p>Interim Financial Reporting</p>	<p>SSAP 25</p> <p>Interim Financial Reporting</p>	<p>The Standards are consistent in all material respects.</p>
<p>IAS 35</p> <p>Discontinuing Operations</p>	<p>SSAP 33</p> <p>Discontinuing Operations</p>	<p>The Standards are consistent in all material respects.</p>

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IAS 36 Impairment of Assets	SSAP 31 Impairment of Assets	The Standards are consistent in all material respects.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	SSAP 28 Provisions, Contingent Liabilities and Contingent Assets	The Standards are consistent in all material respects.
IAS 38 Intangible Assets	SSAP 29 Intangible Assets	The Standards are consistent in all material respects.
IAS 39 Financial Instruments: Recognition and Measurement	SSAP 24 Accounting for Investments in Securities	<p>The scope of IAS 39 is wider than SSAP 24 – dealing with a broader range of financial instruments, including derivatives. The framework established by IAS 39 is similar to the framework under SSAP 24’s alternative treatment. However, the requirements of IAS 39 are much more comprehensive, and compliance with SSAP 24 is unlikely to achieve compliance with IAS 39, except in very simple circumstances.</p> <p>The HKSA has issued an Exposure Draft based on IAS 39.</p>

IFRS	Equivalent HKFRS	Comment
<p>IAS 40</p> <p>Investment Property</p>	<p>SSAP 13</p> <p>Accounting for Investment Properties</p>	<p>There are significant differences between these two Standards. In particular:</p> <ul style="list-style-type: none"> • IAS 40 permits a choice between adopting a cost or a fair value model for investment property whereas, except for some de-minimums exceptions for unlisted enterprises, SSAP 13 does not permit the use of the cost method; • where a fair value model is adopted under IAS 40, all movements in fair value are dealt with in the income statement, whereas SSAP 13 generally recognises such movements in equity; • under IAS 40's fair value model, investment property is never depreciated, whereas SSAP 13 requires that it be depreciated when the unexpired term of the lease is 20 years or less; and • IAS 40 provides guidance on transfers to and from the investment property category, whereas SSAP 13 includes no such guidance. <p>In addition, a significant issue for Hong Kong is that leasehold property will not generally fall within the IFRS definition of investment property (since the lease is likely to be classified as an operating lease).</p>

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		<p>This issue will be addressed to a certain extent by the IASB's Improvements Project which proposes to permit certain 'combined' leases of land and buildings to be classified as finance leases (see IAS 17 above). It is also proposed that the IAS 40 definition of investment property will be amended so that property rights held under an operating lease can qualify as investment property if the other conditions for investment property are met.</p> <p>However, significant divergence as to the reporting of fair value movements remains. The Council of the HKSA has indicated that it will defer the publication of an Exposure Draft based on IAS 40 until the IASB has clarified its proposals on reporting performance.</p>
<p>IAS 41 Agriculture</p>	<p>SSAP 36 Agriculture (effective from 1 January 2004)</p>	<p>The Standards are consistent in all material respects.</p>
<p>IFRS 1 First-time Adoption of International Financial Reporting Standards</p>	<p>HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards</p>	<p>The Standards are consistent in all material respects.</p>
<p>No equivalent Standard</p>	<p>SSAP 27 Accounting for Group Reconstructions</p>	<p>IAS 22 <i>Business Combinations</i> excludes from its scope combinations of enterprises under common control.</p>