JURISDICTIONAL PROFILE: Hong Kong

Disclaimer: The information in this Profile is for general guidance only and may change from time to time. You should not act on the information in this Profile, and you should obtain specific professional advice to help you in making any decisions or in taking any action. If you believe that the information has changed or is incorrect, please contact us at ifrsapplication@ifrs.org.

This Profile has been prepared by the IFRS Foundation based on information from various sources. The starting point was the answers provided by standard-setting and other relevant bodies in response to surveys that the Foundation conducted on the application of IFRS around the world. The Foundation drafted the profile and invited the respondents to the survey and others (including regulators and international audit firms) to review the drafts, and their comments are reflected.

The purpose of the IFRS Foundation’s Jurisdictional Profiles is to illustrate the extent of implementation of IFRS Standards across the globe only. The Profiles do not reflect the intellectual property licensing status of IFRS Standards within any given jurisdiction. The IFRS Standards are protected by copyright and are subject to different licensing arrangements according to jurisdiction. For further information, please contact Licences@ifrs.org.

PARTICIPANT IN THE IFRS FOUNDATION SURVEY ON APPLICATION OF IFRS

Organisation

Hong Kong Institute of Certified Public Accountants (HKICPA)

Role of the organisation

As one of two Special Administrative Regions of China (the other being Macao), Hong Kong has its own legal system, including its own legal framework for developing accounting standards.

The HKICPA is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong pursuant to Section 18A of the Professional Accountants Ordinance (Chapter 50).

Website

www.hkicpa.org.hk

Email contact

standardsetting@hkicpa.org.hk

COMMITMENT TO GLOBAL FINANCIAL REPORTING STANDARDS

Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards?

Yes.

Has the jurisdiction made a public commitment towards IFRS as that single set of high quality global accounting standards?

Yes.
| What is the jurisdiction's status of adoption? | Hong Kong Financial Reporting Standards (HKFRS) have been fully converged with International Financial Reporting Standards (IFRS) for annual reporting periods commencing from 1 January 2005. |
| Additional comments provided on the adoption status? | HKFRS contain wording identical to the equivalent IFRS except that the transitional provisions in a few standards that were converged initially with effect from 1 January 2005 were changed to provide the transition from the requirements in the previous HK GAAP. Since 1 January 2005, all HKFRS issued have the same IFRS effective dates and transitional provisions. |
| If the jurisdiction has NOT made a public statement supporting the move towards a single set of accounting standards and/or towards IFRS as that set of standards, explain the jurisdiction's general position towards the adoption of IFRS in your jurisdiction. | Not applicable. |

### EXTENT OF IFRS APPLICATION

**For DOMESTIC companies whose debt or equity securities trade in a public market in the jurisdiction:**

- Are all or some domestic companies whose securities trade in a public market either required or permitted to use IFRS in their consolidated financial statements?

  - Domestic companies whose securities trade in a public market are required to use Hong Kong Financial Reporting Standards (HKFRS), which are identical to IFRS, with the following exception: A company that is domiciled in Hong Kong but that is incorporated outside of Hong Kong is permitted to use either HKFRS or IFRS as issued by the IASB. See comment below regarding application of the HKFRS equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

- If YES, are IFRS REQUIRED or PERMITTED?

  - Either HKFRS or IFRS are required.

- Does that apply to ALL domestic companies whose securities trade in a public market, or only SOME? If some, which ones?

  - All.

- Are IFRS also required or permitted for more than the consolidated financial statements of companies whose securities trade in a public market?

  - Yes.

- For instance, are IFRS required or permitted in separate company financial statements of companies whose securities trade in a public market?

  - HKFRS and IFRS are required as explained above.

- For instance, are IFRS required or permitted for companies whose securities do not trade in a public market?

  - Companies whose securities do not trade in a public market are permitted to use HKFRS or, if they are incorporated outside Hong Kong, to use IFRS as issued by the IASB. An SME (as defined in IFRS for SMEs) in Hong Kong also has the option to adopt the HKFRS for Private Entities, which is nearly identical to the IFRS for SMEs. Additionally, a Hong Kong incorporated company that is not a holding company or a subsidiary in itself has the option to use the Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS).
If the jurisdiction currently does NOT require or permit the use of IFRS for domestic companies whose securities trade in a public market, are there any plans to permit or require IFRS for such companies in the future?  
Not applicable.

For FOREIGN companies whose debt or equity securities trade in a public market in the jurisdiction:

Are all or some foreign companies whose securities trade in a public market either REQUIRED or PERMITTED to use IFRS in their consolidated financial statements?  
Yes, foreign companies whose securities are publicly traded in Hong Kong are permitted to report under IFRS.

If YES, are IFRS REQUIRED or PERMITTED in such cases?  
Permitted.

Does that apply to ALL foreign companies whose securities trade in a public market, or only SOME? If some, which ones?  
Annual accounts of foreign company that is publicly traded in Hong Kong are required to conform to:

a. Hong Kong Financial Reporting Standards (HKFRS), which are identical to IFRS; or
b. IFRS; or
c. China Accounting Standards for Business Enterprises (ASBE) in the case of an issuer from the People’s Republic of China that has adopted ASBE for the preparation of its annual financial statements; or
d. an overseas issuer that has a secondary listing on the Hong Kong Exchange may prepare its accounts in conformity with Generally Accepted Accounting Principles in the United States of America (US GAAP).

At 30 June 2014, a total of 296 Chinese companies (known as ‘Red Chip’ and ‘H-Share’ companies) trade in Hong Kong. The financial reporting frameworks used by those companies in Hong Kong are as follows:

<table>
<thead>
<tr>
<th>Which standards?</th>
<th>Number of companies</th>
<th>Per cent of companies</th>
<th>Market capitalisation (US Dollars)</th>
<th>Per cent of market capitalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS</td>
<td>90</td>
<td>30%</td>
<td>841,020,300,539</td>
<td>69%</td>
</tr>
<tr>
<td>HKFRS</td>
<td>161</td>
<td>54%</td>
<td>319,844,402,277</td>
<td>26%</td>
</tr>
<tr>
<td>ASBE</td>
<td>45</td>
<td>15%</td>
<td>57,268,715,905</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>296</td>
<td>100%</td>
<td>1,218,133,418,721</td>
<td>100%</td>
</tr>
</tbody>
</table>

IFRS ENDORSEMENT

Which IFRS are required or permitted for domestic companies?  
IFRS as issued by the IASB, ie standards and amendments are adopted/endorsed as and when issued by the IASB.

The auditor’s report and/or the basis of presentation footnotes states that financial statements have been prepared in conformity with:  
Hong Kong Financial Reporting Standards (if the company uses HKFRS) or IFRS (if the company is incorporated outside Hong Kong and uses IFRS as issued by the IASB).

Does the auditor’s report and/or the basis of preparation footnote allow for ‘dual reporting’ (conformity with both IFRS and the jurisdiction’s GAAP)?  
Yes.

Are IFRS incorporated into law or regulations?  
No.

If yes, how does that process work?  
Financial reporting standards issued by the HKICPA are recognised as authoritative under Hong Kong law.
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>If no, how do IFRS become a requirement in the jurisdiction?</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Does the jurisdiction have a formal process for the 'endorsement' or 'adoption' of new or amended IFRS (including Interpretations) in place?</td>
<td>Yes.</td>
</tr>
</tbody>
</table>
If yes, what is the process?

The HKICPA’s due process procedures are as follows:

1. HKFRS are developed through a due process that involves members and member practices of the HKICPA, listed companies in Hong Kong, the stock exchange, regulatory and legal authorities, academics and other interested individuals and organisations.

2. The HKICPA Financial Reporting Standards Committee (FRSC) consults the HKICPA Standards and Quality Accountability Board (SQAB) on major projects, agenda decisions, and work priorities. The FRSC identifies potential agenda items for which timely guidance can be provided. Due process for projects may involve any or all of the following steps which are conducted by the FRSC except for noted otherwise:
   a. identifying and reviewing all the issues associated with an exposure draft or a draft interpretation issued by the IASB for possible adoption in Hong Kong or any other topics and considering the application of the Framework to the issues, if needed;
   b. studying pronouncements of the IASB and other standard setting bodies and accepted industry practices about the issues;
   c. consulting the SQAB about the advisability of adding the topic to the FRSC’s agenda;
   d. forming an advisory group to give advice to the FRSC on the project;
   e. publishing for public comment a discussion document and, in the case of the IASB issuing a discussion document, issuing an invitation to comment in Hong Kong on that discussion document with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;
   f. publishing for public comment an exposure draft or a draft interpretation and, in the case of the IASB issuing an exposure draft or a draft interpretation, issuing an invitation to comment in Hong Kong on that IASB exposure draft or draft interpretation with a request for comment before the comment deadline imposed by the IASB so as to allow the FRSC a reasonable time to consider the comments before Council makes a submission to the IASB;
   g. publishing within an exposure draft a basis for conclusions;
   h. considering all comments received within the comment period on discussion documents, exposure drafts, and draft interpretations and those received in response to the Hong Kong invitation to comment on the IASB documents and, when appropriate, preparing a comment letter to the IASB;
   i. following publication of the finalised IFRS or Interpretation of IFRS, considering the changes made, if any, by the IASB and adopting the finalised IFRS or Interpretation of IFRS in Hong Kong with the same effective date;
   j. approving a standard or an Interpretation, including that converged with the equivalent IFRS or Interpretation of IFRS, by Council; and
   k. publishing within a standard a basis for conclusions, if appropriate, explaining how the conclusions were reached and giving background information that may help users of HKFRS to apply them in practice or, in the case of a standard that is converged with IFRS, publishing within the standard the IASB Basis for Conclusions with an explanation of the extent to which Council agrees with the IASB Basis for Conclusions so as to enable users to understand any changes made to the IFRS.

3. On occasion, the FRSC may consult and raise issues specific to Hong Kong proactively with the IASB.

If no, how do new or amended IFRS become a requirement in the jurisdiction?

Not applicable.
Has the jurisdiction eliminated any accounting policy options permitted by IFRS and/or made any modifications to any IFRS? | No.  
---|---  
If yes, what are the changes? | Not applicable.  
Other comments regarding the use of IFRS in the jurisdiction? | Hong Kong adopted IFRS 1 *First-time Adoption of International Financial Reporting Standards* as HKFRS 1 effective 1 January 2005. Companies that had been using HKFRS prior to 1 January 2005 did not apply HKFRS 1. Companies that have switched from another GAAP to HKFRS on or after 1 January 2005 have applied HKFRS 1.

### TRANSLATION OF IFRS

| Are IFRS translated into the local language? | No.  
---|---  
If they are translated, what is the translation process? In particular, does this process ensure an ongoing translation of the latest updates to IFRS? | Not applicable.  

### APPLICATION OF THE IFRS FOR SMEs

| Has the jurisdiction adopted the IFRS for SMEs for at least some SMEs? | Yes. It is called the HKFRS for Private Entities.  
---|---  
If no, is the adoption of the IFRS for SMEs under consideration? | Not applicable.  
Did the jurisdiction make any modifications to the IFRS for SMEs? | Yes.  
If the jurisdiction has made any modifications, what are those modifications? | Hong Kong modified Section 29 on income taxes to conform to the requirement of IAS 12 *Income Taxes* with respect to using the ordinary income tax rate or capital gains tax rate to measure deferred taxes relating to property.  
Which SMEs use the IFRS for SMEs in the jurisdiction, and are they required or permitted to do so? | All are permitted.  
For those SMEs that are not required to use the IFRS for SMEs, what other accounting framework do they use? | In addition to the HKFRS for Private Entities, SMEs are permitted to use HKFRS or, if they are incorporated outside Hong Kong, to use IFRS as issued by the IASB. Additionally, a Hong Kong incorporated company that is not a holding company or a subsidiary in itself has the option to use the Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS).  
Other comments regarding use of the IFRS for SMEs? | None.  