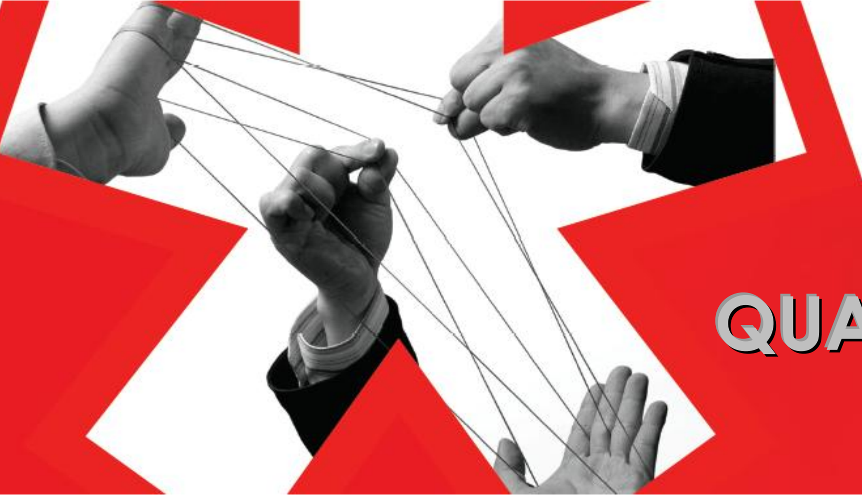


BMI APPRAISALS

QUARTERLY HIGHLIGHT

July 2016

BMI Appraisals Limited

Accounting Updates on Financial Instruments - HKFRS 9 at a Glance?

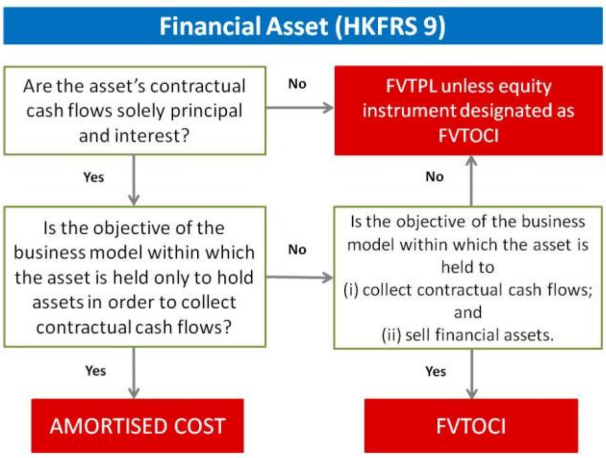
In September 2014, the HKICPA adopted IFRS 9 by issuing HKFRS 9 ‘Financial Instruments’, which will replace HKAS 39 ‘Financial Instruments: Recognition and Measurement’. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The new standard introduces revised requirements on the classification and measurement of financial assets; it also includes a new model for the recognition of impairment losses. Entities are suggested to start assessing the potential impact on their financial reporting and adjusting their investment decision making accordingly.

Key Provisions – Classification of Financial Assets

Under HKFRS 9, financial assets are classified as measured at amortized cost, fair value through other comprehensive income (‘FVTOCI’) or fair value through profit or loss (‘FVTPL’) on the basis of the entity’s business model and their contractual cash flow characteristics. The following flow chart sets out a decision tree to apply the classification criteria.

Valuation indications: Some financial assets previously measured at amortized cost under HKAS 39 may need to be measured at FVTPL or FVTOCI. Entities may need to assess the fair values of these financial assets at the end of each reporting period.



Key Provisions – Expected Credit Losses

Under HKFRS 9, the expected credit losses (ECL) model is introduced for the recognition of impairment losses and replaces the 'incurred loss' model in HKAS 39. HKFRS 9 sets out a single impairment model that applies to all financial instruments in its scope, including financial assets measured at amortized cost or at FVTOCI, loan commitments and financial guarantee contracts that are not measured at FVTPL, lease receivables and contract assets. Impairment is measured as either 12-month ECL or lifetime ECL. ECL is the present value of all cash shortfalls over the expected life of the financial instrument. The ECL should be recognized as a loss allowance in the statement of financial position.

Valuation indications: The measurement of ECL should reflect an unbiased and probability-weighted amount, the time value of money as well as reasonable and supportable information that is available without undue cost or effort. Not only financial institutions which have heavy investment in financial instruments but also entities with issued financial guarantee contracts will be impacted by adoption of the new ECL model.

Should you have any enquiries, please do not hesitate to contact our Managing Director – Dr. Tony Cheng at (852) 2593 9633, our Senior Director – Ms. Joannau Chan at (852) 2593 9634 and our Director - Mr. Marco Sze at (852) 2593 9630. Your enquiries via our portal at www.bmi-appraisals.com or by email to enquiry@bmintelligence.com are also welcome.