



## JURISDICTIONAL PROFILE: **Hong Kong SAR**

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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 a survey that the Foundation conducted on the application of IFRS Standards around the world between August and December 2012. 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.

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### RELEVANT JURISDICTIONAL AUTHORITY

Organisation	Hong Kong Institute of Certified Public Accountants (HKICPA).
Role of the organisation	<p>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.</p> <p>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).</p>
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Email contact	<a href="mailto:standardsetting@hkicpa.org.hk">standardsetting@hkicpa.org.hk</a>

## 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 Standards 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 Standards) starting with annual reporting periods commencing from 1 January 2005.
Additional comments provided on the adoption status?	HKFRS contain wording identical to the equivalent IFRS Standards 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 Standards 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 Standards as that set of standards, explain the jurisdiction's general position towards the adoption of IFRS Standards in the 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 Standards 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 virtually identical to IFRS Standards, 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 Standards as issued by the IASB Board. See comment below regarding application of the HKFRS equivalent of IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> .
If YES, are IFRS Standards REQUIRED or PERMITTED?	Either HKFRS or IFRS Standards 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 Standards 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 Standards required or permitted in separate company financial statements of companies whose securities trade in a public market?	HKFRS and IFRS Standards are required as explained above.

For instance, are IFRS Standards 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 Standards as issued by the IASB Board. An SME (as defined in the *IFRS for SMEs* Standard) in Hong Kong also has the option to adopt the HKFRS for Private Entities, which is nearly identical to the *IFRS for SMEs* Standard. 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 Standards for domestic companies whose securities trade in a public market, are there any plans to permit or require IFRS Standards 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 Standards in their consolidated financial statements?

Yes, foreign companies whose securities are publicly traded in Hong Kong are permitted to report under IFRS Standards.

If YES, are IFRS Standards 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:

1. HKFRS, which are virtually identical to IFRS Standards; or
2. IFRS; or
3. 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
4. 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 October 2018, a total of 391 Chinese companies trade in Hong Kong (on the 'Red Chip' and 'H-Share' main boards). The financial reporting frameworks used by those companies in Hong Kong are as follows:

Which standards?	Number of companies	Per cent of companies	Market capitalisation (US Dollars)	Per cent of market capitalisation
IFRS Standards	144	37%	1,010,379,027,377	70%
HKFRS	194	50%	409,989,950,756	28%
ASBE	53	13%	32,993,849,122	2%
Total	391	100%	1,453,362,827,255	100%

## IFRS ENDORSEMENT

Which IFRS Standards are required or permitted for domestic companies?	IFRS Standards as issued by the IASB Board, ie standards and amendments are adopted/endorsed as and when issued by the IASB Board.
The auditor's report and/or the basis of presentation footnote states that financial statements have been prepared in conformity with:	Hong Kong Financial Reporting Standards (if the company uses HKFRS) or IFRS Standards (if the company is incorporated outside Hong Kong and uses IFRS Standards as issued by the IASB Board).
Does the auditor's report and/or the basis of preparation footnote allow for 'dual reporting' (conformity with both IFRS Standards and the jurisdiction's GAAP)?	Yes.
Are IFRS Standards 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.
If no, how do IFRS Standards become a requirement in the jurisdiction?	Not applicable.
Does the jurisdiction have a formal process for the 'endorsement' or 'adoption' of new or amended IFRS Standards (including Interpretations) in place?	Yes.
If yes, what is the process?	<p>The HKICPA's due process procedures are as follows:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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: <ol style="list-style-type: none"> <li>(a) identifying and reviewing all the issues associated with an exposure draft or a draft interpretation issued by the IASB Board for possible adoption in Hong Kong or any other topics and considering the application of the Framework to the issues, if needed;</li> <li>(b) studying pronouncements of the IASB Board and other standard setting bodies and accepted industry practices about the issues;</li> <li>(c) consulting the SQAB about the advisability of adding the topic to the FRSC's agenda;</li> <li>(d) forming an advisory group to give advice to the FRSC on the project;</li> </ol> </li> </ol>

- (e) publishing for public comment a discussion document and, in the case of the IASB Board 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 Board;
- (f) publishing for public comment an exposure draft or a draft interpretation and, in the case of the IASB Board 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 Board;
- (i) following publication of the finalised IFRS Standard or Interpretation of IFRS Standard, considering the changes made, if any, by the IASB Board and adopting the finalised IFRS Standard or Interpretation of IFRS Standards in Hong Kong with the same effective date;
- (j) approving a standard or an Interpretation, including that converged with the equivalent IFRS Standard or Interpretation of IFRS Standards, 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 Standard.

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

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

Not applicable.

Has the jurisdiction eliminated any accounting policy options permitted by IFRS Standards and/or made any modifications to any IFRS Standards?

No.

If yes, what are the changes?

Not applicable.

Other comments regarding the use of IFRS Standards 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 STANDARDS

Are IFRS Standards 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 Standards? Not applicable.

## APPLICATION OF THE IFRS FOR SMEs STANDARD

Has the jurisdiction adopted the IFRS for SMEs Standard for at least some SMEs? Yes. It is called the HKFRS for Private Entities.

If no, is the adoption of the IFRS for SMEs Standard under consideration? Not applicable.

Did the jurisdiction make any modifications to the IFRS for SMEs Standard? Yes, originally. However, in 2015 the Board amended the *IFRS for SMEs* Standard so that the 2015 version of the *IFRS for SMEs* Standard reflects Hong Kong's modification in full.

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 Standard 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 Standard, 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 Standards as issued by the Board. 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 Standard? None.