Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 165

(Issued 28 January 2015)

This Update relates to the publication of:

- *Disclosure Initiative* (Amendments to HKAS 1 *Presentation of Financial Statements*); and
- *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 (2011) *Investments in Associates and Joint Ventures*

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing pages i - ii & replace with revised pages i - ii.	Revised contents pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 1 *Presentation of Financial Statements*	Replace the cover page and pages 2, 4 and 57 with revised cover page and pages 2, 4 and 57. Insert pages 55A-55G after page 55, pages 85A-85G after page 85 and pages 105A-105F after page 105.	- Note 1, 3
HKAS 28 (2011) *Investments in Associates and Joint Ventures*	Replace the cover page and pages 2-3 and 16 with revised cover page and pages 2-3 and 16. Insert pages 15C-15D after page 15B, pages 31A-31C after page 31.	- Note 2, 3
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 10 *Consolidated Financial Statements* (Standard)	Replace the cover page and pages 2 and 4 with revised cover page and pages 2 and 4. Insert pages 66-68 after page 65.	- Note 2, 3

HKFRS 10 *Consolidated Financial Statements* (Basis for Conclusions)	Replace the cover page and pages 2 and 4 with revised cover page and pages 2 and 4. Insert pages 73D-73J after page 73C.	- Note 2, 3
HKFRS 12 *Disclosure of Interests in Other Entities* (Standard)	Replace the cover page and pages 2-3 with revised cover page and pages 2-3. Insert page 26 after page 25.	- Note 2, 3
HKFRS 12 *Disclosure of Interests in Other Entities* (Basis for Conclusions)	Replace the cover page and pages 2 and 4 with revised cover page and pages 2 and 4. Insert page 28 after page 27.	- Note 2, 3

Notes:

1. The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

2. The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

3. The above-mentioned amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to January 2015)

HKAS 1 (Revised)
Revised ~~May 2014~~January 2015

Effective for annual periods beginning on or after 1 January 2009

Hong Kong Accounting Standard 1 (Revised)

Presentation of Financial Statements

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Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) is set out in paragraphs 1–140 and Appendix A. All the paragraphs have equal authority. HKAS 1 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting.* HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This revised Standard was issued in December 2007 and revised in ~~May 2014~~ January 2015. It supersedes HKAS 1, issued in 2004, as amended in 2005.

Appendix D
Amendments to HKAS 1 *Disclosure Initiative*

The following sets out amendments required for this Standard resulting from amendments to HKAS 1 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraphs 10, 31, 54–55, 82A, 85, 113–114, 117, 119 and 122 are amended, paragraphs 30A, 55A, 85A–85B and 139P are added and paragraphs 115 and 120 are deleted. Paragraphs 29–30, 112, 116, 118 and 121 have not been amended but are included for ease of reference. Deleted text is struck through and new text is underlined.

Complete set of financial statements

10 **A complete set of financial statements comprises:**

(a) **a statement of financial position as at the end of the period;**

(b) **a statement of profit or loss and other comprehensive income for the period;**

(c) **a statement of changes in equity for the period;**

(d) **a statement of cash flows for the period;**

(e) **notes, comprising ~~a summary of~~ significant accounting policies and other explanatory information;**

(ea) **comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and**

(f) **a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.**

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

…

Materiality and aggregation

29 **An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.**

30 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it is aggregated with other items either in those statements or in the notes. An item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes.

<u>30A</u> <u>When applying this and other HKFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.</u>

31 Some HKFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

...

Information to be presented in the statement of financial position

54 ~~As a minimum, t~~The statement of financial position shall include line items that present the following amounts:

(a) ...

55 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

55A When an entity presents subtotals in accordance with paragraph 55, those subtotals shall:

(a) be comprised of line items made up of amounts recognised and measured in accordance with HKFRS;

(b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

(c) be consistent from period to period, in accordance with paragraph 45; and

(d) not be displayed with more prominence than the subtotals and totals required in HKFRS for the statement of financial position.

...

Information to be presented in the other comprehensive income section

82A The other comprehensive income section shall present line items for the amounts ~~of other comprehensive income in the period, classified by nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and grouped into those that, in accordance with other HKFRSs~~ for the period of:

(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other HKFRSs:

(~~a~~)(i) will not be reclassified subsequently to profit or loss; and

(~~b~~)(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that, in accordance with other HKFRSs:

(i) will not be reclassified subsequently to profit or loss; and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

...

85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.

85A When an entity presents subtotals in accordance with paragraph 85, those subtotals shall:

(a) be comprised of line items made up of amounts recognised and measured in accordance with HKFRS;

(b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable;

(c) be consistent from period to period, in accordance with paragraph 45; and

(d) not be displayed with more prominence than the subtotals and totals required in HKFRS for the statement(s) presenting profit or loss and other comprehensive income.

85B An entity shall present the line items in the statement(s) presenting profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraph 85 with the subtotals or totals required in HKFRS for such statement(s).

...

Structure

112 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 117–124;

(b) disclose the information required by HKFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

113 An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

114 ~~An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:~~ Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

(~~a~~)(i) statement of compliance with HKFRSs (see paragraph 16);

(~~b~~)(ii) ~~summary of~~ significant accounting policies applied (see paragraph 117);

(~~c~~)(iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(~~d~~)(iv) other disclosures, including:

(~~i~~)(1) contingent liabilities (see HKAS 37) and unrecognised contractual commitments~~,~~; and

(~~ii~~)(2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see HKFRS 7).

115 [Deleted] ~~In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement(s) presenting profit or loss and other comprehensive income and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.~~

116 An entity may present notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

Disclosure of accounting policies

117 An entity shall disclose ~~in the summary of~~ its significant accounting policies comprising:

(a) the measurement basis (or bases) used in preparing the financial statements~~,~~; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

118 It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in HKFRSs. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see HKAS 40 *Investment Property*). Some HKFRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, HKAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

120 [Deleted] ~~Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.~~

121 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by HKFRSs but the entity selects and applies in accordance with HKAS 8.

122 An entity shall disclose, ~~in the summary of~~ along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

...

Transition and effective date

...

139P *Disclosure Initiative* (Amendments to HKAS 1), issued in January 2015, amended paragraphs 10, 31, 54–55, 82A, 85, 113–114, 117, 119 and 122, added paragraphs 30A, 55A and 85A–85B and deleted paragraphs 115 and 120. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Entities are not required to disclose the information required by paragraphs 28–30 of HKAS 8 in relation to these amendments.

Consequential amendments to other Standards

HKFRS 7 *Financial Instruments: Disclosures*

Paragraph 21 is amended and paragraph 44BB is added. Deleted text is struck through and new text is underlined.

Accounting policies

21 In accordance with paragraph 117 of HKAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses~~, in the summary of~~ its significant accounting policies~~,~~ comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

...

Effective date and transition

...

44BB *Disclosure Initiative* (Amendments to HKAS 1), issued in January 2015, amended paragraphs 21 and B5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application of those amendments is permitted.

In Appendix B, paragraph B5 is amended. Deleted text is struck through and new text is underlined.

Other disclosure – accounting policies (paragraph 21)

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

(a) ...

Paragraph 122 of HKAS 1 (as revised in 2007) also requires entities to disclose, ~~in the summary of~~ along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

HKAS 34 *Interim Financial Reporting*

Paragraph 5 is amended and paragraph 57 is added. Deleted text is struck through and new text is underlined.

Content of an interim financial report

5 HKAS 1 defines a complete set of financial statements as including the following components:

...

(e) notes, comprising ~~a summary of~~ significant accounting policies and other explanatory information;

...

Effective date

...

57 *Disclosure Initiative* (Amendments to HKAS 1), issued in January 2015, amended paragraph 5. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application of that amendment is permitted.

Amendments to the Basis for Conclusions on IAS 1 *Disclosure Initiative*

This appendix contains amendments to the Basis for Conclusions on IAS 1 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will deleted.

Paragraphs BC30A–BC30J and their related heading are added. Paragraphs BC38A–BC38I and their related heading are renumbered to paragraphs BC38H–BC38P and paragraphs BC38A–BC38G and their related heading are added. Paragraphs BC54K–BC54L and paragraphs BC58A–BC58B, BC76A–BC76G and BC105C–BC105F and their related headings are also added. New text is underlined.

Materiality and aggregation (paragraphs 29–31)

BC30A The Board was informed at the Discussion Forum *Financial Reporting Disclosure* in January 2013, in its related survey and by other sources, that there are difficulties applying the concept of materiality in practice. Some are of the view that these difficulties contribute to a disclosure problem, namely, that there is both too much irrelevant information and not enough relevant information in financial statements. A number of factors have been identified for why materiality may not be applied well in practice. One of these is that the guidance on materiality in IFRS is not clear.

BC30B Some think that the statement in IAS 1 that an entity need not provide a specific disclosure if the information is not material means that an entity does not need to present an item in the statement(s) of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity, but must instead disclose it in the notes. However, the Board noted that the concept of materiality is applicable to financial statements, which include the notes, and not only to those statements.

BC30C Some are of the view that when IFRS states that a specific disclosure is required, the concept of materiality does not apply to those disclosure requirements, ie disclosures specifically identified in IFRS are required irrespective of whether they result in material information. In addition, some people think that when a line item is presented, or a material item is otherwise recognised, in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, all the disclosures in IFRS specified for that item must be disclosed. The Board observed that paragraph 31 of IAS 1 is clear that the concept of materiality applies to specific disclosures required by an IFRS and therefore an entity does not have to disclose information required by an IFRS if that information would not be material.

BC30D The Board understands that these misconceptions may have arisen because of the wording that is used when specifying presentation or disclosure requirements in IFRS; for example, the use of the words 'as a minimum'. For this reason, the Board removed the phrase 'as a minimum' in paragraph 54 of IAS 1, which lists line items for presentation in the statement of financial position. This also makes the requirement broadly consistent with the corresponding requirement in paragraph 82 of IAS 1 for the profit or loss section of the statement of comprehensive income or the statement of profit or loss.

BC30E On the basis of its observations and conclusions set out in paragraphs BC30A–BC30D, the Board added a new paragraph, paragraph 30A, and amended paragraph 31 of IAS 1.

BC30F Paragraph 30A was added to IAS 1 to highlight that when an entity decides how it aggregates information in the financial statements, it should take into consideration all relevant facts and circumstances. Paragraph 30A emphasises that an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements makes the material information less visible and therefore makes the financial statements less understandable. The amendments do not actually prohibit entities from disclosing immaterial information, because the Board thinks that such a requirement would not be operational; however, the amendments emphasise that disclosure should not result in material information being obscured.

BC30G The Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 1) (the 'March 2014 Exposure Draft'), which was published in March 2014, also proposed that an entity should not 'disaggregate' information in a manner that obscures useful information. Disaggregation is often used to describe the process of expanding totals, subtotals and line items into further items that themselves may reflect the aggregated results of transactions or other events. Because the process of expanding totals, subtotals and line items is more likely to increase the transparency of information rather than obscuring it, the Board decided not to include the term disaggregation in paragraph 30A of IAS 1. In addition, the Board was of the view that items resulting from the process of disaggregation that themselves reflect the aggregated results of transactions would be covered by paragraphs 29–31 of IAS 1.

BC30H The Board amended paragraph 31 of IAS 1 to highlight that materiality also applies to disclosures specifically required by IFRS. In addition, to highlight that materiality not only involves decisions about excluding information from the financial statements, the Board amended paragraph 31 to reiterate the notion already stated in paragraph 17(c) of IAS 1 that materiality also involves decisions about whether to include additional information in the financial statements. Consequently, an entity should make additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

BC30I The Board noted that the definition of 'material' in paragraph 7 of IAS 1 discusses omissions or misstatements of items being material if they could individually or collectively influence economic decisions. The Board considered making amendments to paragraph 31 of IAS 1 to say that an entity need not provide a specific disclosure if the information provided by that disclosure is not material, either individually or collectively. However, the Board decided not to make that change since the definition of material already incorporates the notions of individual and collective assessment and, therefore, reference to the term material in paragraph 31 is sufficient to incorporate this concept.

BC30J In the March 2014 Exposure Draft the Board proposed to use the term 'present' to refer to line items, subtotals and totals on the statement(s) of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity, and the term 'disclose' to mean information in the notes. However, respondents to the March 2014 Exposure Draft did not support the distinction between present and disclose because they considered that the terminology has not been used consistently throughout IAS 1 and that any changes in how these terms are used should be done as part of a comprehensive review of IAS 1. Because of this, and because making such comprehensive changes to IAS 1 would be outside the scope of these amendments, the Board did not finalise the proposed changes regarding use of the terms present and disclose.

...

Statement of financial position

Information to be presented in the statement of financial position (paragraphs 54–55A)

BC38A Paragraph 54 of IAS 1 lists line items that are required to be presented in the statement of financial position. The Board has been informed that some have interpreted that list as prescriptive and that those line items cannot be disaggregated. There is also a perception by some that IFRS prevents them from presenting subtotals in addition to those specifically required by IFRS.

BC38B Paragraph 55 of IAS 1 requires an entity to present additional line items, headings and subtotals when their presentation is relevant to an understanding of the entity's financial position. This highlights that the line items listed for presentation in paragraph 54 of IAS 1 should be disaggregated and that subtotals should be presented, when relevant. Paragraphs 78 and 98 of IAS 1 give examples of potential disaggregations of line items in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

BC38C Consequently, the Board:

(a) removed the wording 'as a minimum' from paragraph 54 of IAS 1 (see paragraph BC30D) to address the possible misconception that this wording prevents entities from aggregating the line items specified in paragraph 54 if those specified line items are immaterial; and

(b) clarified that the presentation requirements in paragraphs 54–55 may be fulfilled by disaggregating a specified line item.

BC38D The Board noted that there are similar presentation requirements in paragraph 85 of IAS 1 for the statement(s) of profit or loss and other comprehensive income. The Board therefore amended those requirements to make them consistent.

BC38E Some respondents to the proposals suggested that the Board should make clear that the line items listed in paragraph 54 of IAS 1 are required 'when material'. The Board decided not to state that the line items are only required when material, because materiality is generally not referenced specifically in disclosure requirements in IFRS and so including a specific reference in this case could make it less clear that materiality applies to other disclosure requirements.

BC38F The Board understands that some are concerned about the presentation of subtotals, in addition to those specified in IFRS, in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. Those with this concern think that some subtotals can be misleading, for example, because they are given undue prominence. The Board noted that paragraphs 55 and 85 of IAS 1 require the presentation of subtotals when such presentation is relevant to an understanding of the entity's financial position or financial performance.

BC38G The Board therefore included additional requirements in IAS 1 to help entities apply paragraphs 55 and 85. These additional requirements supplement the existing guidance on fair presentation in paragraphs 15 and 17 of IAS 1. They are designed to clarify the factors that should be considered when fairly presenting subtotals in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. Specifically, the subtotal should:

(a) be comprised of line items made up of amounts recognised and measured in accordance with IFRS.

(b) be understandable. It should be clear what line items are included in the subtotal by the way that the subtotal is presented and labelled. For example, if an entity presents a commonly reported subtotal, but excludes items that would normally be considered as part of that subtotal, the label should reflect what has been excluded.

(c) be consistent from period to period. The subtotal should be consistently presented and calculated from period to period (in accordance with paragraph 45 of IAS 1), subject to possible changes in accounting policy or estimates assessed in accordance with IAS 8.

(d) not be displayed with more prominence than those subtotals and totals required in IFRS for either the statement(s) of profit or loss and other comprehensive income or the statement of financial position.

Current assets and current liabilities (paragraphs 68 and 71)

…

Reporting comprehensive income (paragraph 81)

...

BC54K In 2013 the IFRS Interpretations Committee reported to the Board that there was uncertainty about the requirements in paragraph 82A of IAS 1 for presenting an entity's share of items of other comprehensive income of associates and joint ventures accounted for using the equity method. The Board agreed that paragraph 82A allowed for diverse interpretations, and therefore decided to amend IAS 1 as follows:

(a) to clarify that paragraph 82A requires entities to present the share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that:

(i) will not be reclassified subsequently to profit or loss; and

(ii) will be reclassified subsequently to profit or loss when specific conditions are met.

(b) to amend the Guidance on Implementing IAS 1 to reflect the clarification of paragraph 82A.

The Board noted that whether an amount is reclassified to profit or loss is determined by the nature of the underlying item. It also noted that the timing of reclassification is usually determined by the actions of the investee. It may however also be triggered by the investor, which would be the case on the disposal of the investee by the investor.

BC54L The feedback received on the March 2014 Exposure Draft included requests for the Board to clarify whether the investor's share of the other comprehensive income of its associate or joint venture should be presented net or gross of tax and the applicability of the guidance in paragraphs 90–91 of IAS 1 in this regard. The Board noted that an investor's share of other comprehensive income of associates or joint ventures is after tax and non-controlling interests of the associate or joint venture, as illustrated in the Guidance on Implementing IAS 1. It also noted that the disclosure requirements in paragraphs 90–91 do not apply to the tax of the associate or joint venture that is already reflected in the investor's share of other comprehensive income of the associate or joint venture. However, the Board noted that if the investor itself is liable for tax in respect of its share of other comprehensive income of the associate or joint venture, then paragraphs 90–91 would apply to this tax. Therefore, the Board decided not to add additional guidance to IAS 1 on this topic.

...

Information to be presented in the profit or loss section or the statement of profit or loss (paragraphs 85–85B)

BC58A In December 2014 the Board issued *Disclosure Initiative* (Amendments to IAS 1). Those amendments included amendments to paragraph 85 of IAS 1 and the addition of paragraph 85A. These amendments are consistent with similar amendments to the requirements for the statement of financial position and therefore the Basis for Conclusions for these amendments has been included in the section dealing with that statement (see paragraphs BC38A–BC38G).

BC58B In addition to those amendments, the Board decided to require entities to present line items in the statement(s) of profit or loss and other comprehensive income that reconcile any subtotals presented in accordance with paragraphs 85–85A of IAS 1 with those that are required in IFRS for the statement(s) of profit or loss and other comprehensive income. Consequently, it added paragraph 85B to IAS 1. The purpose of this requirement is to help users of financial statements understand the relationship between the subtotals presented in accordance with paragraph 85 and the specific totals and subtotals required in IFRS to address concerns that that relationship would not be clear. The Board noted that such a requirement is already implicit in existing IFRS requirements. IFRS requires entities to present aggregated information as line items when such presentation provides material information. Consequently, because all recognised items of income and expense must be included in the statement(s) of profit or loss and other comprehensive income totals, any intervening line items and subtotals necessarily reconcile. However, the Board decided to make the requirement more explicit for the statement(s) of profit or loss and other comprehensive income to help users of financial statements understand the relationship between subtotals and totals presented in the statement(s) of profit or loss and other comprehensive income.

...

Notes

Structure (paragraphs 112–116)

BC76A The Board is aware that some had interpreted paragraph 114 of IAS 1 as requiring a specific order for the notes. Paragraph 114 stated that 'an entity normally presents notes in the [following] order' and then listed a particular order for the notes. Some think that the use of 'normally' makes it difficult for an entity to vary the order of the notes from the one that is listed in paragraph 114; for example, by disclosing the notes in order of importance or disclosing related information together in sections.

BC76B Investors' feedback indicates that some investors prefer an entity to vary the order of the notes from the one that is listed in paragraph 114 of IAS 1. Other investors would prefer entities to use that order because they think it will increase comparability between periods and across entities.

BC76C The Board considered the use of the word normally in paragraph 114 of IAS 1 and concluded that it was not intended that entities be required to disclose their notes in that order. Instead, it thinks that the order listed was intended to provide an example of how an entity could order the notes and that the term normal was not meant to imply that alternative ordering of the notes is 'abnormal'. The Board therefore amended IAS 1 to clarify that the order listed in paragraph 114 is an example of how an entity could order or group its notes in a systematic manner. The Board also made amendments to clarify that significant accounting policies do not need to be disclosed in one note, but instead can be included with related information in other notes.

BC76D The Board also noted the requirement in paragraph 113 of IAS 1 for entities to, as far as practicable, present the notes in a systematic manner. In the Board's view, this means that there must be a system or reason behind the ordering and grouping of the notes. For example, notes could be ordered by importance to the entity, in the order line items are presented in the financial statements or a combination of both. The Board amended paragraph 113 to clarify that an entity should consider the effect on the understandability and comparability of its financial statements when determining the order of the notes. The Board acknowledged that there is a trade-off between understandability and comparability; for example, ordering notes to increase understandability could mean that comparability, including consistency, between entities and periods is reduced. In particular, the Board acknowledged that consistency in the order of the notes for a specific entity from period to period is important. The Board noted that it would generally be helpful for users of financial statements if the ordering of notes by an entity is consistent and noted that it does not expect the order of an entity's notes to change frequently. A change in the order of the notes previously determined to be an optimal mix of understandability and comparability should generally result from a specific event or transaction, such as a change in business. The Board also noted that the existing requirements in paragraph 45 of IAS 1 for consistency of presentation still apply.

BC76E The Board also observed that electronic versions of financial statements can make it easier to search for, locate and compare information within the financial statements, between periods and between entities.

Disclosure of accounting policies (paragraphs 117–121)

BC76F Paragraph 117 of IAS 1 requires significant accounting policies to be disclosed and gives guidance, along with paragraphs 118–124 of IAS 1, about what a significant accounting policy could be. That guidance includes, as examples of significant accounting policies, the income taxes accounting policy and the foreign currency accounting policy.

BC76G Some suggested that it is not helpful to provide the income taxes accounting policy as an example of a policy that users of financial statements would expect to be disclosed. Being liable to income taxes is typical for many entities and it was not clear, from the example, what aspect of the entity's operations would make a user of financial statements expect an accounting policy on income taxes to be disclosed. Consequently, the example does not illustrate why an accounting policy on income taxes is significant. The Board also thought that the foreign currency accounting policy example in paragraph 120 of IAS 1 was unhelpful for the same reasons and therefore deleted the income taxes and foreign currency examples.

...

Transition and effective date

...

Disclosure Initiative (Amendments to IAS 1)

BC105C The Board decided that *Disclosure Initiative* (Amendments to IAS 1) should be applied for annual periods beginning on or after 1 January 2016 with early application permitted.

BC105D The Board noted that these amendments clarify existing requirements in IAS 1. They provide additional guidance to assist entities to apply judgement when meeting the presentation and disclosure requirements in IFRS. These amendments do not affect recognition and measurement. They should not result in the reassessment of the judgements about presentation and disclosure made in periods prior to the application of these amendments.

BC105E Paragraph 38 of IAS 1 requires an entity to present comparative information for all amounts reported in the current period financial statements and for narrative or descriptive information 'if it is relevant to understanding the current period's financial statements'. If an entity alters the order of the notes or the information presented or disclosed compared to the previous year, it also adjusts the comparative information to align with the current period presentation and disclosure. For that reason, IAS 1 already provides relief from having to disclose comparative information that is not considered relevant in the current period and requires comparative information for new amounts presented or disclosed in the current period.

BC105F The March 2014 Exposure Draft proposed that if an entity applies these amendments early that it should disclose that fact. However, the Board removed this requirement and stated in the transition provisions that an entity need not disclose the fact that it has applied these amendments (regardless of whether the amendments have been applied for annual periods beginning on or after 1 January 2016 or if they have been applied early). This is because the Board considers that these amendments are clarifying amendments that do not directly affect an entity's accounting policies or accounting estimates. Similarly, an entity does not need to disclose the information required by paragraphs 28–30 of IAS 8 in relation to these amendments. The Board noted that if an entity decides to change its accounting policies as a result of applying these amendments then it would be required to follow the existing requirements in IAS 8 in relation to those accounting policy changes.

Amendments to the guidance on implementing IAS 1 *Disclosure Initiative*

The following sets out amendments required for this Implementation Guidance resulting from amendments to IAS 1 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Guidance and this appendix will be deleted.

Paragraph IG6 is amended. Deleted text is struck through and new text is underlined.

Illustrative financial statement structure

...

IG6 The examples are not intended to illustrate all aspects of IFRSs, nor do they constitute a complete set of financial statements, which would also include a statement of cash flows, ~~a summary of~~ <u>disclosures about</u> significant accounting policies and other explanatory information.

The versions of IAS 1 that include examples of statement of profit or loss and other comprehensive income when IAS 39 *Financial Instruments: Recognition and Measurement* is applied are amended. Deleted text is struck through and new text is underlined.

Part I: Illustrative presentation of financial statements

...

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)

...

	20X7	**20X6**
...		
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ <u>other comprehensive income</u> of associates[(b)]	400	(700)
Income tax relating to items that will not be reclassified[(c)]	(166)	(1,000)
	500	3,000
...		

continued…

…continued

...

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)

...

	20X7	**20X6**
Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.		
Other comprehensive income for the year, after tax:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	600	2,700
Remeasurements of defined benefit pension plans	(500)	1,000
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates	400	(700)
	500	3,000

...

(a) ...

(b) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.

(c) The income tax relating to each item of other comprehensive income is disclosed in the notes.

(d) ...

...

(illustrating the presentation of profit or loss and other comprehensive income in two statements)

...

	20X7	**20X6**
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(a)]	400	(700)
Income tax relating to items that will not be reclassified[(b)]	(166)	(1,000)
	500	3,000

...

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

(a) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.

(b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

The versions of IAS 1 that include examples of statement of profit or loss and other comprehensive income when IFRS 9 *Financial Instruments* is applied are amended. Deleted text is struck through and new text is underlined.

...

(illustrating the presentation of profit or loss and other comprehensive income in one statement and the classification of expenses within profit or loss by function)

...

	20X7	**20X6**
...		
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(b)]	400	(700)
Income tax relating to items that will not be reclassified[(c)]	5,834	(7,667)
	(17,500)	23,000

...

Alternatively, items of other comprehensive income could be presented in the statement of profit or loss and other comprehensive income net of tax.

Other comprehensive income for the year, after tax:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	600	2,700
Investments in equity instruments	(18,000)	20,000
Remeasurements of defined benefit pension plans	(500)	1,000
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates	400	(700)
	(17,500)	23,000

...

(a) ...

(b) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.

(c) The income tax relating to each item of other comprehensive income is disclosed in the notes.

(d) ...

...

(illustrating the presentation of profit or loss and other comprehensive income in two statements)

...

	20X7	**20X6**
Profit for the year	121,250	65,500
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on property revaluation	933	3,367
Investments in equity instruments	(24,000)	26,667
Remeasurements of defined benefit pension plans	(667)	1,333
Share of ~~gain (loss) on property revaluation~~ other comprehensive income of associates[(a)]	400	(700)
Income tax relating to items that will not be reclassified[(b)]	5,834	(7,667)
	(17,500)	23,000

...

Alternatively, items of other comprehensive income could be presented, net of tax. Refer to the statement of profit or loss and other comprehensive income illustrating the presentation of income and expenses in one statement.

(a) This means the share of associates' ~~gain (loss) on property revaluation~~ other comprehensive income attributable to owners of the associates, ie it is after tax and non-controlling interests in the associates. In this example, the other comprehensive income of associates consists only of items that will not be subsequently reclassified to profit or loss. Entities whose associates' other comprehensive income includes items that may be subsequently reclassified to profit or loss are required by paragraph 82A(b) to present that amount in a separate line.

(b) The income tax relating to each item of other comprehensive income is disclosed in the notes.

Consequential amendments to the Guidance on implementing other Standards

IFRS 4 *Insurance Contracts*

Paragraphs IG20 and IG24 are amended. Deleted text is struck through.

Assets, liabilities, income and expense

…

IG20 IAS 1 requires ~~minimum~~ disclosures in the statement of financial position. An insurer might conclude that, to satisfy those requirements, it needs to present separately in its statement of financial position the following amounts arising from insurance contracts:

...

IG24 IAS 1 lists ~~minimum~~ line items that an entity should present in its statement of comprehensive income. It also requires the presentation of additional line items when this is necessary to present fairly the entity's financial performance. An insurer might conclude that, to satisfy these requirements, it needs to present the following amounts in its statement of comprehensive income:

(a) ...

IFRS 8 *Operating Segments*

Paragraph IG2 is amended. Deleted text is struck through.

Descriptive information about an entity's reportable segments

IG2 ...

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

The accounting policies of the operating segments are the same as those described in the ~~summary of~~ significant accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

...

HKAS 28 (2011)
Revised ~~October 2014~~January 2015

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Accounting Standard 28 (2011)

Investments in Associates and Joint Ventures

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

CONTENTS

from paragraph

Hong Kong Accounting Standard 28 *Investments in Associates and Joint Ventures* (HKAS 28) is set out in paragraphs 1–47. All the paragraphs have equal authority. HKAS 28 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Appendix
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 *Investment Entities: Applying the Consolidation Exception*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 10, HKFRS 12 and HKAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraphs 17, 27 and 36 are amended and paragraphs 36A and 45D are added. Deleted text is struck through and new text is underlined. Paragraphs 26 and 35 are not amended, but have been included for ease of reference.

Exemptions from applying the equity method

17 An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of HKFRS 10 or if all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces ~~consolidated~~ financial statements available for public use that comply with HKFRSs<u>, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with HKFRS 10.</u>

...

Equity method procedures

26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in HKFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

27 A group's share in an associate or a joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 35–36A ~~and 36~~).

...

35 The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.

36 Except as described in paragraph 36A, ~~I~~if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

36A Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

...

Effective date and transition

...

45D *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28), issued in January 2015, amended paragraphs 17, 27 and 36 and added paragraph 36A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

CONTENTS

Amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

This appendix contains amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraph BC9 is footnoted as follows. New text is underlined.

In December 2014, the IASB issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28). The amendments introduced relief to permit a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries (see paragraphs BC46A–BC46G).

Paragraphs BC19A, BC46A–BC46G, BC50A and their related headings are added. New text is underlined.

Exemption from applying the equity method: subsidiary of an investment entity

BC19A In December 2014, the Board amended IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 is available to a parent entity that is a subsidiary of an investment entity. The Board also decided to amend paragraph 17 of IAS 28 for the same reasons. Paragraph 17 of IAS 28 uses the same criteria as paragraph 4(a) of IFRS 10 to provide an exemption from applying the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures.

...

Retaining the fair value measurement applied by an associate or joint venture that is an investment entity

BC46A In October 2012, the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), which required investment entities, as defined in IFRS 10, to measure most investments in subsidiaries at fair value through profit or loss. The amendments did not introduce any new accounting requirements for investments in associates or joint ventures. This is because paragraphs 18–19 of IAS 28 already allowed an investment entity to measure its investments in associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. A wider range of entities, including venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, may also elect to measure their investments in associates and joint ventures in the same way.

BC46B Paragraph 33 of IFRS 10 requires a non-investment entity parent of an investment entity to consolidate all entities that it controls, including those controlled through an investment entity subsidiary. This is consistent with the proposal contained in the Exposure Draft *Investment Entities* (the '*Investment Entities* ED'), which was published in August 2011. Some respondents to the *Investment Entities* ED noted that this seemed inconsistent with paragraphs 18–19 of IAS 28, which allow a wider group of entities than only investment entities to measure their investments in associates and joint ventures at fair value through profit or loss. The Board acknowledged this inconsistency, and explained its reasons for not amending IAS 28 in line with IFRS 10, in paragraph BC283 of IFRS 10.

BC46C Subsequently, the IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify whether an entity that is not an investment entity should, when applying the equity method of accounting for its investment in an associate or joint venture that is an investment entity, retain the fair value measurement that is applied by that associate or joint venture to its subsidiaries or, instead, 'unwind' that treatment and apply consolidation procedures. Members of the Interpretations Committee had mixed views on the matter and, because of the need to provide clarity before the end of 2014, the matter was passed to the Board.

BC46D The Board noted that the scope of the amendment in the *Investment Entities* ED was restricted to providing an exception to the consolidation requirements for investment entity parents. This exception reflects the unique business model of an investment entity, for which fair value information is more relevant than consolidation. This unique business model is not applicable to a non-investment entity parent. Consequently, paragraph 33 of IFRS 10 requires a non-investment entity parent of an investment entity to consolidate all entities that it controls, both directly and indirectly through an investment entity. This requires the non-investment entity parent to unwind the fair value through profit or loss measurement used by its investment entity subsidiaries for indirectly held subsidiaries.

BC46E The Board also noted that paragraphs 35–36 of IAS 28, which require the use of uniform accounting policies, would apply for a non-investment entity investor and its investment entity associates or joint ventures. This would mean that the subsidiaries of those investment entity associates and joint ventures should be consolidated into the financial statements of those associates and joint ventures prior to the equity method being applied. The Board noted that this is conceptually consistent with the requirement in IFRS 10 for a non-investment entity parent to consolidate subsidiaries held through an investment entity subsidiary.

BC46F However, some Board members raised concerns about the potentially significant practical difficulties or additional costs that may arise for an entity in unwinding the fair value through profit or loss measurement applied by an investment entity associate or joint venture for their interests in subsidiaries. Some Board members noted that the degree of practical difficulty is different depending on whether the investee is an associate or joint venture. In addition, some Board members noted the structuring risks highlighted in paragraph BC280 of IFRS 10 and noted that an investor's ability to achieve different accounting outcomes by holding investments through an investment entity investee is different depending on whether the investee is an associate or a joint venture. Consequently, in the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) (the '*Consolidation Exception* ED'), which was published in June 2014, the Board proposed to provide relief to non-investment entity investors for their interests in investment entity associates, but not for their interests in investment entity joint ventures.

BC46G The practicality and cost concerns were noted by the majority of respondents to the *Consolidation Exception* ED. However, the majority of respondents disagreed with the proposal to limit the relief to interests in investment entity associates, noting that the practicality and cost issues also applied to interests in joint ventures. In addition, some respondents disagreed with the concerns about the risk of structuring, noting that the difference between significant influence and joint control is much smaller than the difference between control and joint control. Consequently, the Board decided to provide relief to non-investment entity investors in both investment entity associates and joint ventures and to retain the consistency in treatment in applying the equity method to both associates and joint ventures. This relief permits, but does not require, a non-investment entity investor to retain the fair value through profit or loss measurement applied by an investment entity associate or joint venture for their subsidiaries when applying the equity method.

...

Effective date and transition

...

BC50A The Board decided that no specific transition guidance was needed and, therefore, an entity should apply *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

HKFRS 10
Revised ~~October 2014~~January 2015

Effective for annual periods beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 10

Consolidated Financial Statements

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Appendix H
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 *Investment Entities: Applying the Consolidation Exception*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 10 , HKFRS 12 and HKAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraphs 4 and 32 are amended and paragraphs 4A–4B are added. Deleted text is struck through and new text is underlined. Paragraphs 31 and 33 are not amended, but have been included for ease of reference.

Scope

4 An entity that is a parent shall present consolidated financial statements. This HKFRS applies to all entities, except as follows:

(a) a parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) its ultimate or any intermediate parent produces ~~consolidated~~ financial statements that are available for public use and comply with HKFRSs or International Financial Reporting Standards<u>, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this HKFRS</u>.

(b) ~~post-employment benefit plans or other long-term employee benefit plans to which HKAS 19 *Employee Benefits* applies.~~ <u>[deleted]</u>

(c) ~~an investment entity need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this HKFRS, to measure all of its subsidiaries at fair value through profit or loss.~~ <u>[deleted]</u>

<u>4A</u> <u>This HKFRS does not apply to post-employment benefit plans or other long-term employee benefit plans to which HKAS 19 *Employee Benefits* applies.</u>

<u>4B</u> <u>A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this HKFRS, to measure all of its subsidiaries at fair value through profit or loss.</u>

...

Investment entities: exception to consolidation

31 **Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply HKFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with HKFRS 9.**

32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this HKFRS and apply the requirements of HKFRS 3 to the acquisition of any such subsidiary.

33 A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

In Appendix B, paragraphs B85C and B85E are amended. Deleted text is struck through and new text is underlined. Paragraphs B85A–B85B and B85D are not amended, but have been included for ease of reference.

Determining whether an entity is an investment entity

B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

Business purpose

B85B The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity's investment objectives are, such as the entity's offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity's business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).

B85C An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity, subject to the entity continuing to meet the definition of an investment entity.

B85D An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:

(a) providing management services and strategic advice to an investee; and

(b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

B85E If an investment entity has a subsidiary that ~~provides~~ is not itself an investment entity and whose main purpose and activities are providing investment-related services or activities that relate to the investment entity's investment activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32. If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent shall measure that subsidiary at fair value through profit or loss in accordance with paragraph 31.

In Appendix C, paragraph C1D is added and paragraph C2A is amended. New text is underlined.

Effective date

...

C1D *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28), issued in January 2015, amended paragraphs 4, 32, B85C, B85E and C2A and added paragraphs 4A–4B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Transition

...

C2A Notwithstanding the requirements of paragraph 28 of HKAS 8, when this HKFRS is first applied, and, if later, when the *Investment Entities* and *Investment Entities: Applying the Consolidation Exception* amendments to this HKFRS are first applied, an entity need only present the quantitative information required by paragraph 28(f) of HKAS 8 for the annual period immediately preceding the date of initial application of this HKFRS (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Basis for Conclusions on
Hong Kong Financial Reporting Standard 10

Consolidated Financial Statements

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Amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

This appendix contains amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraphs BC28A–BC28F and their related heading are added. New text is underlined.

Exemption from preparing consolidated financial statements for an intermediate parent of an investment entity

BC28A In December 2014, the Board amended IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 is available to a parent entity that is a subsidiary of an investment entity. This question came about because an investment entity may measure all of its subsidiaries at fair value through profit or loss in accordance with paragraph 31 of IFRS 10. This decision was consistent with the proposal in the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28), which was published in June 2014.

BC28B Paragraph 4(a)(iv) of IFRS 10, which is one of the criteria for the exemption from preparing consolidated financial statements, previously specified the requirement that the entity's ultimate or any intermediate parent 'produces consolidated financial statements that are available for public use and comply with IFRSs.' The IFRS Interpretations Committee was asked whether the exemption set out in paragraph 4(a) was available to a parent entity that is a subsidiary of an ultimate, or any intermediate, investment entity parent, if the conditions set out in paragraph 4(a)(i)–(iii) are met, but the investment entity parent does not consolidate any of its subsidiaries. Instead, the investment entity parent prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of IFRS 10.

BC28C The Board observed that the exemption for intermediate parent entities was provided because the cost of requiring each intermediate parent entity within a group to prepare consolidated financial statements would outweigh the benefits in cases in which the conditions in paragraph 4(a) of IFRS 10 are met. The Board had previously decided that the conditions in paragraph 4(a) provide safeguards for the users of the intermediate parent's financial statements. In addition, the Board noted that the combination of information available in the consolidated financial statements of the higher level parent and the separate financial statements of the intermediate parent entity provide useful information to users.

BC28D The Board additionally observed that, when an investment entity measures its interest in a subsidiary at fair value, the disclosures required by IFRS 12 are supplemented by those required in IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. Accordingly, the Board decided that this combination of information is sufficient to support the decision to retain the existing exemption from presenting consolidated financial statements for a subsidiary of an investment entity that is itself a parent entity. The Board noted that requiring an intermediate parent that is a subsidiary of an investment entity to prepare consolidated financial statements could result in significant additional costs, without commensurate benefit. The Board noted that this would be contrary to its intention in requiring investment entities to measure investments at fair value, which was to provide more relevant information at a reduced cost, as described in paragraphs BC309 and BC314 of IFRS 10.

BC28E The Board also decided to amend paragraph 17 of IAS 28 *Investments in Associates and Joint Ventures* for the same reasons. Paragraph 17 of IAS 28 uses the same criteria as paragraph 4(a) of IFRS 10 to provide an exemption from applying the equity method for entities that are subsidiaries and that hold interests in associates and joint ventures.

BC28F Furthermore, the Board decided to amend paragraph 6(b) of IFRS 12 to clarify that the relevant disclosure requirements in IFRS 12 apply to an investment entity. Paragraph 6 of IFRS 12 previously stated that IFRS 12 did not apply to an entity's separate financial statements without stating the applicability of IFRS 12 to investment entities. The Board decided to clarify that this scope exclusion does not apply to the financial statements of a parent that is an investment entity and has measured all of its subsidiaries at fair value through profit or loss in accordance with paragraph 31 of IFRS 10. In such cases, the investment entity shall present the disclosures relating to investment entities required by IFRS 12.

Paragraphs BC191, BC219 and BC225 are amended. Deleted text is struck through. Paragraph BC226 is not amended, but has been included for ease of reference.

Effective date

BC191 The Board decided to align the effective date for the IFRS with the effective date for IFRS 11, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 ~~*Investments in Associates and Joint Ventures*~~. When making this decision, the Board noted that the five IFRSs all deal with the assessment of, and related accounting and disclosure requirements about, a reporting entity's special relationships with other entities (ie when the reporting entity has control or joint control of, or significant influence over, another entity). As a result, the Board concluded that applying IFRS 10 without also applying the other four IFRSs could cause unwarranted confusion.

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Background

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BC219 Respondents to ED 10 also argued that when an investment entity consolidates entities that it controls, it is not required to provide the disclosures related to fair value measurements that would be required if the subsidiaries were measured at fair value. For example, IFRS 7 ~~*Financial Instruments: Disclosures*~~ relates only to recognised financial assets and liabilities. There is no requirement to provide disclosures related to fair value for investments in consolidated subsidiaries. Information about fair value and the methodology and inputs used for determining fair value is vital for users to make investment decisions about investment entities. Investors in an investment entity are interested in the fair value of their interest in that entity and often transact with it on a fair value basis (ie their investment in the investment entity is based on a share of the net assets of that entity). Reporting the fair value of substantially all of the net assets of an investment entity allows the investors in that entity to more easily identify the value of their share of those net assets.

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Scope of the project

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BC225 Other respondents asked the Board to provide guidance permitting an investor in an investment entity to use the reported net asset value (NAV) per share of that investment entity as a practical expedient for measuring the fair value of its investment in that investment entity. Similar guidance exists in US GAAP. The Board considered providing such a practical expedient in their deliberations on IFRS 13 ~~*Fair Value Measurement*~~ but decided against it because, at the time, there was no specific accounting guidance for investment entities in IFRS and because there are different practices for calculating NAVs in jurisdictions around the world. The Board decided that it is outside the scope of the Investment Entities project to provide fair value measurement guidance for investments in investment entities. The Board developed the definition of an investment entity to identify which entities should qualify for an exception to consolidation. The definition was not designed to decide which entities should qualify for a fair value measurement practical expedient. Moreover, the Board still has concerns that NAV could be calculated differently in different jurisdictions. Consequently, the Board decided not to provide an NAV practical expedient for fair value measurement as part of the Investment Entities project.

BC226 The Board has decided to adopt an entity-based approach to the exception to consolidation. That is, the exception to consolidation is based on the type of entity that owns the subsidiary. The Board considered providing an asset-based approach to the exception to consolidation. Under an asset-based approach, an entity would consider its relationship with, and the characteristics of, each of its subsidiaries (that is, each individual asset) to decide whether fair value measurement is more appropriate than consolidation. However, the Board decided to retain the entity-based exception to consolidation that was proposed in the *Investment Entities* ED. The Board was concerned that an asset-based approach would significantly broaden the exception to consolidation by making the exception available to any entity holding relevant assets. This would represent a significant conceptual change to the consolidation model that the Board has developed in this IFRS. In addition, the Board believes that investment entities have a unique business model that makes reporting subsidiaries at fair value more appropriate than consolidation. An entity-based approach captures the unique business model of investment entities.

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In paragraph BC220 ‘ ... has not yet been adopted).’ is footnoted as follows. Paragraph BC231 is also footnoted as follows. New text is underlined.

In December 2014, the Board issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28). These amendments clarified which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of IFRS 10, instead of being measured at fair value through profit or loss (see paragraphs BC240A–BC240I).

Paragraphs BC240A–BC240I and BC287A are added. New text is underlined. Paragraphs BC237–BC240, BC241–BC243 and BC272 are not amended, but have been included for ease of reference.

Investment management services

BC237 The Board noted that one of the essential activities of an investment entity is that it obtains funds from investors in order to provide those investors with investment management services. The Board believes that this provision of investment management services differentiates investment entities from other entities. Consequently, the Board decided that the definition of an investment entity should state that an investment entity obtains funds from an investor or investors and provides the investor(s) with investment management services.

Business purpose

BC238 The Board believes that an entity's activities and business purpose are critical to determining whether it is an investment entity. An investment entity collects funds from investors and invests those funds to obtain returns solely from capital appreciation, investment income, or both. Consequently, the Board decided that the definition of an investment entity should state that an investment entity commits to its investor(s) that its business purpose is to provide investment management services and invest funds solely for returns from capital appreciation, investment income, or both.

BC239 The *Investment Entities* ED did not allow an entity to qualify as an investment entity if it provided substantive investment-related services to third parties. While some respondents agreed with this, others argued that an investment entity should be allowed to provide such services to third parties. They argued that the provision of these investment-related services to third parties is simply an extension of the investment entity's investing activities and should not prohibit an entity from qualifying as an investment entity. The Board agreed with these arguments, concluding that the provision of such services is within the business model of an investment entity. Although such an entity may earn fee income from the provision of investment-related services, its sole business purpose is still investing for capital appreciation, investment income, or both (whether that is for itself, for its investors or for external parties).

BC240 The Board noted that an investment entity may sometimes hold an interest in a subsidiary that provides investment-related services for its investment activities. The Board did not think that the existence of such a subsidiary should prohibit an entity from qualifying as an investment entity, even if those services were substantial or were provided to third parties in addition to the entity. The Board views such services as an extension of the operations of the investment entity and therefore concluded that subsidiaries that provide those services should be consolidated.

BC240A In December 2014, the Board issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28). This amended paragraphs 32, BC85C and B85E of IFRS 10 to clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value. The amendments were made in response to a request for the Board to clarify how to apply paragraph 32 when the subsidiary of an investment entity itself meets the definition of an investment entity and provides services that relate to the parent's investment activities.

BC240B The Board decided to clarify that an investment entity shall measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. This is consistent with its decision not to distinguish between investment entity subsidiaries established for different purposes (see paragraph BC272). This was supported by the majority of respondents to both the *Investment Entities* ED and the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28), published in June 2014 (the '*Consolidation Exception* ED').

BC240C Some respondents to the *Consolidation Exception* ED suggested that requiring an investment entity to measure each investment entity subsidiary at fair value as a single item results in a loss of information about each subsidiary's underlying investments and the activities of that subsidiary. They suggested that an investment entity parent should be able to apply a 'dual-model' of consolidation, which would allow an investment entity parent to show its directly and indirectly held investments at fair value while consolidating other activities. This is similar to the asset-based approach previously rejected by the Boad (see paragraph BC226).

BC240D The Board acknowledged some of the potential benefits of an asset-based approach. In particular, this approach may better avoid some structuring issues, particularly in multi-layer groups in which different types of subsidiaries are held at different levels within the group. However, the Board decided that developing a broader principle-based approach, together with guidance to enable consistent application, would be too difficult to achieve within the limited scope of the consolidation exception clarification project. In addition, the Board decided that such an approach and related guidance could not be developed within the short time frame that was needed to provide the necessary clarification before the end of 2014. These decisions were, in part, based on the variety of suggestions provided by respondents to the *Consolidation Exception* ED about which activities should be consolidated and which should be measured at fair value.

BC240E The Board noted that the requirement in paragraph 32 of IFRS 10 to consolidate particular subsidiaries of an investment entity was intended to be a limited exception, capturing only operating subsidiaries that support the investment entity parent's investing activities as an extension of the operations of the investment entity parent. It was not intended to capture subsidiaries that are themselves investment entities. The definition of an investment entity requires that the investment entity's business purpose and, therefore, its core activity is providing investment management services to its investors and investing the funds obtained from its investors solely for returns from capital appreciation, investment income, or both. When the Board decided that providing investment-related services to third parties would not prevent an entity from qualifying as an investment entity, it recognised that investment entities could benefit from synergies between the core investing activities and the provision of investment-related services to third parties.

BC240F The Board noted that, therefore, when an entity assesses whether it qualifies as an investment entity, it considers whether providing services to third parties is ancillary to its core investing activities. However, the definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest and rental income) or both (see paragraph B85B of IFRS 10). Consequently, an entity whose main purpose is to provide investment-related services in exchange for consideration from third parties has a business purpose that is different from the business purpose of an investment entity. This is because the entity's main activity is earning fee income in exchange for its services. In contrast, for an entity that qualifies as an investment entity, such fee income, which could be substantial in amount, will be derived from its core investment activities, which are designed for earning capital appreciation, investment income or both.

BC240G The Board decided that requiring an investment entity to measure all of its subsidiaries that are themselves investment entities at fair value through profit or loss is consistent with the entity-based approach and decided to confirm its proposal in the *Consolidation Exception* ED. Consequently, when an investment entity parent assesses whether a subsidiary should be measured at fair value in accordance with paragraph 31 of IFRS 10 or, instead, should be consolidated in accordance with paragraph 32 of IFRS 10, the parent assesses whether the subsidiary meets the definition of an investment entity. If so, the investment entity parent measures its investment entity subsidiary at fair value through profit or loss in accordance with paragraph 31.

BC240H If the subsidiary is not an investment entity, the investment entity parent assesses whether the main activities undertaken by the subsidiary support the core investment activities of the parent. If so, the subsidiary's activities are considered to be an extension of the parent's core investing activities and the subsidiary would be consolidated in accordance with paragraph 32 of IFRS 10. The Board noted that a subsidiary of an investment entity that provides support services to its parent and other members of the group, such as administration, treasury, payroll and accounting services, is considered to be providing those services as an extension of the operations of the parent. Such a non-investment entity subsidiary would be consolidated in accordance with paragraph 32 of IFRS 10.

BC240I The Board concluded that these outcomes are consistent with its basic decision that measuring all investments of investment entities at fair value through profit or loss provides the most relevant information, except for operating subsidiaries that act as an extension of the investment entity parent.

BC241 The Board considered prohibiting investment entities from engaging in some activities, such as providing financial support to its investees or actively managing its investees. However, the Board understands that an investment entity may engage in these activities in order to maximise the overall value of the investee (ie to maximise capital appreciation), rather than to obtain other benefits. Consequently, the Board believes that these activities can be consistent with the overall activities of an investment entity and should not be prohibited as long as they do not represent a separate substantial business activity or source of income other than capital appreciation.

BC242 The Board was concerned that an entity that meets the definition of an investment entity could be inserted into a larger corporate structure to achieve a particular accounting outcome. For example, a parent entity could use an 'internal' investment entity subsidiary to invest in subsidiaries that may be making losses (eg research and development activities on behalf of the overall group) and would record its investments at fair value, rather than reflecting the underlying activities of the investee. To address these concerns and to emphasise the business purpose of an investment entity, the Board decided to include a requirement that an investment entity, or other members of the group containing the entity, should not obtain benefits from its investees that would be unavailable to other parties that are not related to the investee. In the Board's view, this is one of the factors that differentiate an investment entity from a non-investment entity holding company. If an entity or another member of the group containing the entity obtains benefits from its investees that are unavailable to other investors, then the investment will benefit that entity or the group in some operating or strategic capacity and the entity will therefore not qualify as an investment entity.

BC243 However, the Board also clarified that an investment entity may have more than one investment in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation of those investments. It noted that such a fact pattern may be common in the private equity industry. Some Board members expressed concern that allowing transactions or synergies between investments may artificially increase the fair value of each investment and, consequently, inappropriately increase the assets reported by the investment entity. However, the Board decided that trading transactions or synergies that arise between the investments of an investment entity should not be prohibited because their existence does not necessarily mean that the investment entity is receiving any returns beyond solely capital appreciation, investment income, or both.

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Investment entity parent of an investment entity subsidiary

BC272 The *Investment Entities* ED proposed that an investment entity would measure all of its subsidiaries at fair value (except for those subsidiaries providing investment-related services), even those investees who were themselves investment entities. Some respondents questioned this proposal and suggested that at least some investment entity subsidiaries should be consolidated (for example, wholly-owned investment entity subsidiaries that are created for legal, tax or regulatory purposes). However, the Board thinks that fair value measurement of all an investment entity's subsidiaries (except for those subsidiaries providing investment-related services or activities) would provide the most useful information and therefore decided to retain this proposal. The Board considered requiring an investment entity to consolidate only those investment entity subsidiaries that are formed for legal, tax or regulatory purposes, but decided against this because there is no conceptual basis for distinguishing between different investment entity subsidiaries. Moreover, the Board thinks that it would be very difficult to distinguish between an investment entity subsidiary formed for a specific legal, tax or regulatory purpose and those that are set up only for other business reasons.

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Transition

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BC287A The Board decided that no specific transition guidance was needed and, therefore, an entity should apply *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) retrospectively in accordance with IAS 8. However, the Board decided that an entity need only present the quantitative information required by paragraph 28(f) of IAS 8 for the annual period immediately preceding the date of initial application of this IFRS (the 'immediately preceding period') when the amendments are first applied.

HKFRS 12
Revised ~~November 2014~~January 2015

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 12

Disclosure of Interests in Other Entities

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Contents

Appendix F
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 *Investment Entities: Applying the Consolidation Exception*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 10, HKFRS 12 and HKAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraph 6 is amended. Deleted text is struck through and new text is underlined.

Scope

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6 This HKFRS does not apply to:

(a) ...

(b) an entity's separate financial statements to which HKAS 27 *Separate Financial Statements* applies. However~~,~~:

(i) if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraphs 24–31 when preparing those separate financial statements.

(ii) an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with paragraph 31 of HKFRS 10 shall present the disclosures relating to investment entities required by this HKFRS.

(c) ...

In Appendix C, paragraph C1C is added. New text is underlined.

Effective date and transition

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C1C *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28), issued in January 2015, amended paragraph 6. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on
Hong Kong Financial Reporting Standard 12

Disclosure of Interests in Other Entities

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Appendix
Amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

This appendix contains amendments to Basis for Conclusions on IFRS 10, IFRS 12 and IAS 28 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

Paragraphs BC61I and BC119C are added. New text is underlined.

Investment entities

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BC61I In December 2014, the Board issued *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28). This amended paragraph 6(b) of IFRS 12 to clarify the applicability of IFRS 12 to the financial statements of an investment entity. In June 2014, the Board published the Exposure Draft *Investment Entities: Applying the Consolidation Exception* (Proposed amendments to IFRS 10 and IAS 28) (the '*Consolidation Exception* ED'). The comments received in response to the *Consolidation Exception* ED highlighted a lack of clarity about the applicability of IFRS 12 to the financial statements of an investment entity. In particular, the respondents to the *Consolidation Exception* ED pointed out that paragraph 6 of IFRS 12 stated that the Standard did not apply to an entity's separate financial statements without stating the applicability of IFRS 12 to an investment entity. The Board noted that, in contrast, paragraph 16A of IAS 27 *Separate Financial Statements* requires that an investment entity shall present the disclosures relating to investment entities required by IFRS 12. Accordingly, in response to the feedback received, the Board decided to clarify that the scope exclusion in paragraph 6(b) does not apply to the financial statements of a parent that is an investment entity and has measured all of its subsidiaries at fair value through profit or loss in accordance with paragraph 31 of IFRS 10. In such a case, the investment entity shall present the disclosures relating to investment entities required by IFRS 12. The Board also noted that if an investment entity has a subsidiary that it consolidates in accordance with paragraph 32 of IFRS 10, the disclosure requirements in IFRS 12 apply to the financial statements in which the investment entity consolidates that subsidiary.

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Effective date and transition

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BC119C The Board decided that no specific transition guidance was needed and, therefore, an entity should apply *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.