Update No. 179

(Issued 6 January 2016)

This Update relates to the publication of *Effective Date of Amendments to HKFRS 10 and HKAS 28*

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 28 *Investments in Associates and Joint Ventures*	Replace the cover page and pages 2, 15B and 30-31 with revised cover page and pages 2, 15B and 30-31.	Notes 1 to 4
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 10 *Consolidated Financial Statements* (Standard)	Replace the cover page and pages 2 and 65 with revised cover page and pages 2 and 65.	Notes 1 to 4
HKFRS 10 *Consolidated Financial Statements* (Basis for Conclusions)	Replace the cover page and pages 2, 73A and 73C with revised cover page and pages 2, 73A and 73C.	Notes 1 to 4

Notes:

1. In December 2015, the Institute's Financial Reporting Standards Committee approved the *Effective Date of Amendments to HKFRS 10 and HKAS 28*, following the International Accounting Standards Board's (IASB) equivalent amendments.

2. This Update relates to the *Effective Date of Amendments to HKFRS 10 and HKAS 28*, which defers/removes the effective date of the amendments in *Sale or Contribution of*

Assets between an Investor or its Associate or Joint Venture that the HKICPA issued on 7 October 2014 (the 2014 Amendments). The 2014 Amendments was originally intended to be effective for annual periods beginning on or after 1 January 2016. Early application of the 2014 Amendments continues to be permitted.

3. The 2014 Amendments affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The 2014 Amendments do not affect other aspects of how entities account for their investments in associates and joint ventures.

4. The reason for making the decision to defer/remove the effective date of the 2014 Amendments is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. A new effective date of the 2014 Amendments will be determined at a future date when the IASB finalises its broader review.

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MEMBERS' HANDBOOK
CONTENTS OF VOLUME II

(Updated to January 2016)

HKAS 28 (2011)
Revised ~~January 2015~~January 2016

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Accounting Standard 28 (2011)

Investments in Associates and Joint Ventures

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31A The gain or loss resulting from a downstream transaction involving assets that constitute a business, as defined in HKFRS 3, between an entity (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements.

31B An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in HKFRS 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of HKFRS 10.

…

Paragraph 45C is amended. New text relating to the 2014 Amendments is underlined. New text relating to the 2015 Amendments is underlined and shaded in grey. Deleted text relating to the 2015 Amendments is struck through and shaded in grey.

Effective date and transition

...

45C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to HKFRS 10 and HKAS 28), issued in October 2014, amended paragraphs 28 and 30 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after ~~1 January 2016~~ a date to be determined. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Amendments to the Basis for Conclusions on IAS 28 *Investments in Associates and Joint Ventures* relating to *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

Paragraphs BC37A–BC37J and their related heading are added. New text relating to the 2014 Amendments is underlined. New text relating to the 2015 Amendments is underlined and shaded in grey.

Sale or contribution of assets between an investor and its associate or joint venture—amendments to IFRS 10 and IAS 28 (issued in September 2014)

BC37A The IFRS Interpretations Committee received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13[1] and IAS 28 (as revised in 2011) apply when a business is contributed to a jointly controlled entity (as defined in IAS 31[2]), a joint venture (as defined in IFRS 11) or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC37B The Board noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). In accordance with SIC-13, the amount of the gain or loss recognised resulting from the contribution of a non-monetary asset to a jointly controlled entity in exchange for an equity interest in that jointly controlled entity is restricted to the extent of the interests attributable to the unrelated investors in the jointly controlled entity. However, IAS 27 (as revised in 2008) requires full profit or loss recognition on the loss of control of a subsidiary.

BC37C This inconsistency between IAS 27 (as revised in 2008) and SIC-13 remained after IFRS 10 replaced IAS 27 (as revised in 2008) and SIC-13 was withdrawn. The requirements in IFRS 10 on the accounting for the loss of control of a subsidiary are similar to the requirements in IAS 27 (as revised in 2008). The requirements in SIC-13 are incorporated into paragraphs 28 and 30 of IAS 28 (as amended in 2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 (as revised in 2008) and SIC-13 have been superseded at the time when the amendments become effective, the Board decided to amend only IFRS 10 and IAS 28 (as amended in 2011).

BC37D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (as amended in 2011), the Board was concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in a transaction that is structured as a sale of assets or as a sale of the entity that holds the assets; or

(b) sold in exchange for cash or contributed in exchange for an equity interest.

[1] SIC-13 has been withdrawn. The requirements in SIC-13 are incorporated into IAS 28 (as amended in 2011).

[2] IAS 31 was superseded by IFRS 11 *Joint Arrangements* issued in May 2011.

BC37E The Board concluded that:

(a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the conclusions in IFRS 3; and

(b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

BC37F Because assets that do not constitute a business were not part of the Business Combinations project, the Board concluded that:

(a) the current requirements in IAS 28 (as amended in 2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

(b) IFRS 10 should be amended so that a partial gain or loss is recognised in accounting for the loss of control of a subsidiary that does not constitute a business as a result of a transaction between an investor and its associate or joint venture.

BC37G The Board discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should be consistent with IFRS 3. Although it considered this alternative to be the most robust from a conceptual point of view, it noted that this would require addressing multiple cross-cutting issues. Because of concerns that the cross-cutting issues could not be addressed on a timely basis the conclusions described in paragraphs BC37E–BC37F were considered the best way to address this issue.

BC37H The Board decided that both 'upstream' and 'downstream' transactions should be affected by the amendments to IFRS 10 and IAS 28 (as amended in 2011). The Board noted that if assets that constitute a business were sold by an associate or a joint venture to the investor (in an upstream transaction), with the result that the investor takes control of that business, the investor would account for this transaction as a business combination in accordance with IFRS 3.

BC37I The Board decided that the amendments to IFRS 10 and IAS 28 (as amended in 2011) should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments become effective. The Board observed that the requirements in IAS 27 (as revised in 2008) for the loss of control of a subsidiary (see paragraph 45(c) of IAS 27 as revised in 2008) were applied prospectively. The Board also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the Board concluded that the benefits of comparative information would not exceed the cost of providing it. The Board also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (as amended in 2011).

Deferral of the *Effective Date of Amendments to IFRS 10 and IAS 28* (issued in September 2014)

BC37J In December 2015, the Board decided to defer indefinitely the effective date of the amendments made to IFRS 10 and IAS 28 in September 2014. See paragraphs BC190L–BC190O of the Basis for Conclusions on IFRS 10 *Consolidated Financial Statements*.

HKFRS 10
Revised ~~January 2015~~January 2016

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 10

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remeasurement at fair value of the investment retained in the former subsidiary is recognised in full in the parent's profit or loss.

Application examples

Example 17

A parent has a 100 per cent interest in a subsidiary that does not contain a business. The parent sells 70 per cent of its interest in the subsidiary to an associate in which it has a 20 per cent interest. As a consequence of this transaction the parent loses control of the subsidiary. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 (CU70 = CU100 × 70%). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former subsidiary is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs B98–B99, before the elimination required by paragraph B99A, is CU200 (CU200 = CU210 + CU90 – CU100). This gain comprises two parts:

(a) the gain (CU140) resulting from the sale of the 70 per cent interest in the subsidiary to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph B99A, the parent recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 (CU112 = CU140 × 80%). The remaining 20 per cent of the gain (CU28 = CU140 × 20%) is eliminated against the carrying amount of the investment in the existing associate.

(b) the gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former subsidiary. This gain is the difference between the fair value of the investment retained in the former subsidiary (CU90) and 30 per cent of the carrying amount of the net assets of the subsidiary (CU30 = CU100 × 30%). According to paragraph B99A, the parent recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent (70% × 80%) of the gain, that is CU34 (CU34 = CU60 × 56%). The remaining 44 per cent of the gain CU26 (CU26 = CU60 × 44%) is eliminated against the carrying amount of the investment retained in the former subsidiary.

In Appendix C, paragraph C1C is added. New text relating to the 2014 Amendments is underlined. New text relating to the 2015 Amendments is underlined and shaded in grey. Deleted text relating to the 2015 Amendments is struck through and shaded in grey.

Effective date

...

C1C *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to HKFRS 10 and HKAS 28), issued in October 2014, amended paragraphs 25–26 and added paragraph B99A. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after ~~1 January 2016~~ a date to be determined. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Basis for Conclusions on
Hong Kong Financial Reporting Standard 10

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Amendments to the Basis for Conclusions on IFRS 10 *Consolidated Financial Statements* relating to *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

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

Paragraphs BC190A–BC190O and their related heading are added. New text relating to the 2014 Amendments is underlined. New text relating to the 2015 Amendments is underlined and shaded in grey.

Sale or contribution of assets between an investor and its associate or joint venture—amendments to IFRS 10 and IAS 28 (issued in September 2014)

BC190A The IFRS Interpretations Committee received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*[1] and IAS 28 (as amended in 2011) apply when a business is contributed to a jointly controlled entity (as defined in IAS 31[2]), a joint venture (as defined in IFRS 11) or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC190B The Board noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). In accordance with SIC-13, the amount of the gain or loss recognised resulting from the contribution of a non-monetary asset to a jointly controlled entity in exchange for an equity interest in that jointly controlled entity is restricted to the extent of the interests attributable to the unrelated investors in the jointly controlled entity. However, IAS 27 (as revised in 2008) requires full profit or loss recognition on the loss of control of a subsidiary.

BC190C This inconsistency between IAS 27 (as revised in 2008) and SIC-13 remained after IFRS 10 replaced IAS 27 (as revised in 2008) and SIC-13 was withdrawn. The requirements in IFRS 10 on the accounting for the loss of control of a subsidiary are similar to the requirements in IAS 27 (as revised in 2008). The requirements in SIC-13 are incorporated into paragraphs 28 and 30 of IAS 28 (as amended in 2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 (as revised in 2008) and SIC-13 have been superseded at the time when the amendments become effective, the Board decided to amend only IFRS 10 and IAS 28 (as amended in 2011).

BC190D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (as amended in 2011), the Board was concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in a transaction that is structured as a sale of assets or as a sale of the entity that holds the assets; or

(b) sold in exchange for cash or contributed in exchange for an equity interest.

[1] SIC-13 has been withdrawn. The requirements in SIC-13 are incorporated into IAS 28 (as amended in 2011)

[2] IAS 31 was superseded by IFRS 11 *Joint Arrangements* issued in May 2011.

(b) the part of the gain or loss resulting from the remeasurement of the investment retained in a former subsidiary. The Board noted that if the former subsidiary is now an associate or a joint venture that is accounted for using the equity method, the parent will recognise this part of the gain or loss in its profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. This is because the Board had previously decided that when a subsidiary is not a business the requirements of IAS 28 for the partial gain or loss recognition should be applied. If the parent retains an investment in the former subsidiary that is now accounted for in accordance with IFRS 9, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former subsidiary is recognised in full in the parent's profit or loss. This is because, in this case, the requirements of IFRS 9, rather than the requirements of IAS 28, apply for the partial gain or loss recognition.

BC190K The Board decided that the amendments to IFRS 10 and IAS 28 (as amended in 2011) should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments become effective. The Board observed that the requirements in IAS 27 (as revised in 2008) for the loss of control of a subsidiary were applied prospectively (see paragraph 45(c) of IAS 27 as revised in 2008). The Board also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the Board concluded that the benefits of comparative information would not exceed the cost of providing it. The Board also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (as amended in 2011).

Deferral of the *Effective Date of Amendments to IFRS 10 and IAS 28* (issued in September 2014)

BC190L In September 2014, the Board amended IFRS 10 and IAS 28, for reasons described in paragraphs BC190A–BC190K ('the September 2014 Amendment'). Subsequently, the IFRS Interpretations Committee and the Board considered a number of other issues with respect to the sale or contribution of assets between an investor and its associate.

BC190M In June 2015, the Board decided:

(a) that these further issues should be addressed as part of its research project on equity accounting; and

(b) to defer the effective date of the September 2014 Amendment so that entities need not change how they apply IAS 28 twice in a short period. The Board published for public comment a proposal for that deferral in August 2015 in an Exposure Draft *Effective Date of Amendments to IFRS 10 and IAS 28*. The majority of respondents agreed with that proposal and with the rationale provided by the Board. In the light of that feedback, the Board finalised the deferral of the September 2014 Amendment in December 2015.

BC190N In the December 2015 amendment, the Board deferred the effective date of the September 2014 Amendment. This was done by removing the original effective date of 1 January 2016 and indicating that a new effective date will be determined at a future date when the Board finalises the revisions, if any, that result from the research project. Any future proposal to insert an effective date will be exposed for public comment.

BC190O In deferring the effective date of the September 2014 Amendment, the Board continued to allow early application of that amendment. The Board did not wish to prohibit the application of better financial reporting.