

MEMBERS' HANDBOOK

Update No. 194

(Issued 10 January 2017)

The following Standard and Amendments to Standards are effective for annual reporting periods beginning on or after 1 January 2016:

- HKFRS 14 *Regulatory Deferral Accounts*
- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to HKAS 16 and HKAS 38)
- *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41)
- *Equity Method in Separate Financial Statements* (Amendment to HKAS 27)
- *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28)

The amendments were previously set out in the Appendix to the respective Standards but are now incorporated into the relevant Standards and Basis for Conclusions.

Document Reference and Title

Instructions

Explanations

VOLUME II

[Contents of Volume II](#)

Discard existing pages i-iii & replace with revised pages i-iii.

Revised contents page

HONG KONG ACCOUNTING STANDARDS (HKAS)

[HKAS 16 Property, Plant and Equipment \(Standard\)](#)

Replace the cover page and pages 2, 4-16 and 19 with revised cover page and pages 2, 4-16 and 19-19A. Discard pages 12A and 21A-21E.

Amendments due to:

- *Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Agriculture: Bearer Plants*

[HKAS 16 Property, Plant and Equipment \(Basis for Conclusions\)](#)

Replace the pages 22-23 and 30-46 with revised pages 22-23A and 30-46. Discard pages 47-50. Insert page 27A after page 27.

[HKAS 27 \(2011\) Separate Financial Statements \(Standard\)](#)

Replace the cover page and pages 2-7 and 10 with revised cover page and pages 2-7A and 10. Discard pages 11A-11E.

Amendments due to *Equity Method in Separate Financial Statements*

[HKAS 27 \(2011\) Separate Financial Statements \(Basis for Conclusions\)](#)

Replace pages 13-15 and 18 with revised pages 13-15B and 18. Discard pages 18A-18D.

[HKAS 28 \(2011\) Investments in Associates and Joint Ventures \(Standard\)](#)

Replace the cover page and pages 2-4, 9, 11 and 13-14 with revised cover page and pages 2-4, 9, 11 and 13-14A. Discard pages 15C-15D.

Amendments due to:

- *Equity Method in Separate Financial Statements*
- *Investment Entities: Applying the Consolidation Exception*

[HKAS 28 \(2011\) Investments in Associates and Joint Ventures \(Basis for Conclusions\)](#)

Replace pages 16, 18, 20-21 and 24-25 with revised pages 16, 18, 20-21 and 24-25B. Discard pages 31A-31C.

HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

[HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards](#)

Replace the cover page and pages 2, 15 and 24-25 with revised cover page and pages 2, 15 and 24-25.

Amendments due to:

- *Equity Method in Separate Financial Statements*
- *Investment Entities: Applying the Consolidation Exception*
- HKFRS 14

[HKFRS 10 Consolidated Financial Statements \(Standard\)](#)

Replace the cover page and pages 2, 4, 9, 11A, 39-39A, 43-43A and 46-49 with revised cover page and pages 2, 4, 9-9A, 11A, 39-39A, 43-43A and 46-49. Discard pages 50-68.

Amendments due to *Investment Entities: Applying the Consolidation Exception*

[HKFRS 10 Consolidated Financial Statements \(Basis for Conclusions\)](#)

Replace the cover page and pages 2, 4, 9-10, 38, 43-45, 47, 55 and 66-74 with revised cover page and pages 2, 4, 9-10, 38, 43-45, 47-47B, 55-55A and 66-74. Discard pages 75-79.

[HKFRS 12 Disclosure of Interests in Other Entities \(Standard\)](#)

Replace the cover page and pages 2-3, 8 and 23 with revised cover page and pages 2-3, 8 and 23. Discard page 26.

Amendments due to *Investment Entities: Applying the Consolidation Exception*

[HKFRS 12 *Disclosure of Interests in Other Entities*](#)
[\(Basis for Conclusions\)](#)

Replace the cover page and pages 2, 4, 15A and 25 with revised cover page and pages 2, 4, 15A-15B and 25-26. Discard page 28.

[HKFRS 14 *Regulatory Deferral Accounts*](#)

Replace the cover page and pages 2 and 22 with revised cover page and pages 2 and 22.

Amendments due to HKFRS 14

HONG KONG (IFRIC) INTERPRETATIONS (HK(IFRIC)-Int)

[HK\(IFRIC\)-Int 12 *Service Concession Arrangements*](#)
[\(Basis for Conclusions\)](#)

Replace the cover page and pages 2 and 37 with revised cover page and pages 2 and 37.

Amendments due to *Clarification of Acceptable Methods of Depreciation and Amortisation*



MEMBERS' HANDBOOK CONTENTS OF VOLUME II

(Updated to January 2017)

		<i>Issue/(Review date)</i>
PREFACE AND FRAMEWORK		
PREFACE	Preface to Hong Kong Financial Reporting Standards	10/06(4/15)
CONCEPTUAL FRAMEWORK	Conceptual Framework for Financial Reporting	10/10
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 1 Revised	Presentation of Financial Statements	12/07 (12/16)
HKAS 2	Inventories	3/04(2/14)
HKAS 7	Statement of Cash Flows	12/04(6/16)
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	9/04(2/14)
HKAS 10	Events after the Reporting Period	3/04(2/14)
HKAS 11	Construction Contracts	12/04(3/10)
HKAS 12	Income Taxes	11/04(6/16)
HKAS 16	Property, Plant and Equipment	11/05(1/17)
HKAS 17	Leases	12/04(2/14)
HKAS 18	Revenue	11/04(5/14)
HKAS 19 (2011)	Employee Benefits	7/11(12/16)
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance	12/04(2/14)
HKAS 21	The Effects of Changes in Foreign Exchange Rates	3/04(5/14)
HKAS 23 Revised	Borrowing Costs	6/07(3/10)
HKAS 24 Revised	Related Party Disclosures	11/09 (11/16)
HKAS 26	Accounting and Reporting by Retirement Benefit Plans	8/04
HKAS 27 (2011)	Separate Financial Statements	6/11(1/17)
HKAS 28 (2011)	Investments in Associates and Joint Ventures	6/11(1/17)

		<i>Issue/(Review date)</i>
HKAS 29	Financial Reporting in Hyperinflationary Economies	3/04(4/10)
HKAS 32	Financial Instruments: Presentation	11/04(11/14)
HKAS 33	Earnings per Share	3/04(5/14)
HKAS 34	Interim Financial Reporting	10/04(12/16)
HKAS 36	Impairment of Assets	8/04(12/16)
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets	11/04(11/16)
HKAS 38	Intangible Assets	8/04(11/16)
HKAS 39	Financial Instruments: Recognition and Measurement	1/06(11/16)
HKAS 40	Investment Property	11/05(11/16)
HKAS 41	Agriculture	12/04(8/14)
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 1 Revised	First-time Adoption of Hong Kong Financial Reporting Standards	12/08(1/17)
HKFRS 2	Share-based Payment	4/04(11/16)
HKFRS 3 Revised	Business Combinations	3/08(11/16)
HKFRS 4	Insurance Contracts	3/06(12/16)
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations	8/04(12/16)
HKFRS 6	Exploration for and Evaluation of Mineral Resources	2/05(2/10)
HKFRS 7	Financial Instruments: Disclosures	9/05(12/16)
HKFRS 8	Operating Segments	3/07(12/16)
HKFRS 9	Financial Instruments	11/09 (09/14)
HKFRS 9	Financial Instruments (Hedge Accounting)	12/13
HKFRS 9 (2014)	Financial Instruments	09/14
HKFRS 10	Consolidated Financial Statements	6/11(1/17)
HKFRS 11	Joint Arrangements	6/11(12/16)
HKFRS 12	Disclosure of Interests in Other Entities	6/11(1/17)
HKFRS 13	Fair Value Measurement	6/11(11/16)
HKFRS 14	Regulatory Deferral Accounts	2/14(1/17)
HKFRS 15	Revenue from Contracts with Customers	7/14(6/16)
HKFRS 16	Leases	5/16

HONG KONG (IFRIC) INTERPRETATIONS (HK(IFRIC)-Int)

HK(IFRIC)-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities..	8/04(7/10)
HK(IFRIC)-Int 2	Members' Shares in Co-operative Entities and Similar Instruments	2/05(2/14)
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease	2/05(2/14)
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	2/05(2/14)
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.....	9/05
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	1/06(7/10)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	5/06(2/14)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	9/06(7/12)
HK(IFRIC)-Int 12	Service Concession Arrangements	3/07(1/17)
HK(IFRIC)-Int 13	Customer Loyalty Programmes	9/07(2/14)
HK(IFRIC)-Int 14	HKAS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	9/07(11/16)
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	8/08(8/10)
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	8/08(5/14)
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	12/08(5/14)
HK(IFRIC)-Int 18	Transfers of Assets from Customers	2/09(8/10)
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments	12/09(5/14)
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine	11/11
HK(IFRIC)-Int 21	Levies	6/13

HONG KONG INTERPRETATIONS (HK-Int)*

HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases	6/06 (12/09)
HK-Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	11/10

Note: * With effect from 24 May 2005, all Interpretations that are developed locally by the Institute are named Hong Kong Interpretations.

HONG KONG (SIC) INTERPRETATIONS (HK(SIC)-Int)

HK(SIC)-Int 10	Government Assistance – No Specific Relation to Operating Activities	12/04(8/10)
HK(SIC)-Int 15	Operating Leases – Incentives	12/04(9/10)
HK(SIC)-Int 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	12/04(8/10)
HK(SIC)-Int 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease.....	12/04(9/10)

HKAS 16
Revised November 2016 January 2017

Hong Kong Accounting Standard 16

Property, Plant and Equipment



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

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TRANSITIONAL PROVISIONS	80
EFFECTIVE DATE	81
WITHDRAWAL OF OTHER PRONOUNCEMENTS	82
APPENDICES:	
A	Comparison with International Accounting Standards
B	Amendments to other pronouncements
BASIS FOR CONCLUSIONS	
TABLE OF CONCORDANCE	

Hong Kong Accounting Standard 16 *Property, Plant and Equipment* (HKAS 16) is set out in paragraphs 1-83 and Appendix B. All the paragraphs have equal authority. HKAS 16 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.

Introduction

IN1 Hong Kong Accounting Standard 16 *Property, Plant and Equipment* (HKAS 16) should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

IN1A The HKICPA amended the scope of HKAS 16 in 2014 to include bearer plants related to agricultural activity.

Reasons for issuing HKAS 16

IN2 The objectives of Hong Kong Institute of Certified Public Accountants (HKICPA) issuing HKAS 16 were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For HKAS 16 the HKICPA's main objective was a limited revision to provide additional guidance and clarification on selected matters. The HKICPA did not reconsider the fundamental approach to the accounting for property, plant and equipment contained in HKAS 16.

The main features

IN4 The main features of HKAS 16 are described below.

Scope

IN5 This Standard clarifies that an entity is required to apply the principles of this Standard to items of property, plant and equipment used to develop or maintain (a) biological assets and (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources. *Agriculture: Bearer Plants (Amendments to HKAS 16 and HKAS 41)*, issued in August 2014, amended the scope of this Standard to include bearer plants related to agricultural activity.

Recognition: subsequent costs

IN6 An entity evaluates under the general recognition principle all property, plant and equipment costs at the time they are incurred. Those costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service an item.

Measurement at recognition: asset dismantlement, removal and restoration costs

IN7 The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Its cost also includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of using the item during a particular period for purposes other than to produce inventories during that period.

Measurement at recognition: asset exchange transactions

IN8 An entity is required to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance.

Measurement after recognition: revaluation model

IN9 If fair value can be measured reliably, an entity may carry all items of property, plant and equipment of a class at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses.

Depreciation: unit of measure

- IN10 An entity is required to determine the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depreciation: depreciable amount

- IN11 An entity is required to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Depreciation: depreciation period

- IN12 An entity is required to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognised, even if during that period the item is idle.

Derecognition: derecognition date

- IN13 An entity is required to derecognise the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in HKAS 18 *Revenue* would be met.
- IN14 An entity is required to derecognise the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of the replacement in the carrying amount of the item.

Derecognition: gain classification

- IN15 An entity cannot classify as revenue a gain it realises on the disposal of an item of property, plant and equipment.

Hong Kong Accounting Standard 16

Property, Plant and Equipment

Objective

- 1 The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

- 2 **This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.**

- 3 This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; ~~;~~
- (b) biological assets related to agricultural activity other than bearer plants (see HKAS 41 *Agriculture*); ~~This Standard applies to bearer plants but it does not apply to the produce on bearer plants.~~
- (c) the recognition and measurement of exploration and evaluation assets (see HKFRS 6 *Exploration for and Evaluation of Mineral Resources*); ~~or.~~
- (d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) - (d).

- 4 Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, HKAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.
- 5 An entity using the cost model for investment property in accordance with HKAS 40 *Investment Property* shall use the cost model in this Standard.

Definitions

- 6 **The following terms are used in this Standard with the meanings specified:**

A bearer plant is a living plant that:

- (a) is used in the production or supply of agricultural produce;**
- (b) is expected to bear produce for more than one period; and**
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.**

(Paragraphs 5A–5B of HKAS 41 elaborate on this definition of a bearer plant.)

***Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.**

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other HKFRSs, e.g. HKFRS 2 *Share-based Payment*.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See HKFRS 13 *Fair Value Measurement*).

An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

The **residual value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Recognition

- 7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
 - (b) the cost of the item can be measured reliably.
8. Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this HKFRS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

- 9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.
- 10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial costs

- 11 Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with HKAS 36 *Impairment of Assets*.

Subsequent costs

- 12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.
- 13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).
- 14 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at recognition

- 15 **An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.**

Elements of cost

- 16 The cost of an item of property, plant and equipment comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 17 Examples of directly attributable costs are:
- (a) costs of employee benefits (as defined in HKAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
 - (b) costs of site preparation;
 - (c) initial delivery and handling costs;
 - (d) installation and assembly costs;
 - (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
 - (f) professional fees.
- 18 An entity applies HKAS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with HKAS 2 or HKAS 16 are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- 19 Examples of costs that are not costs of an item of property, plant and equipment are:
- (a) costs of opening a new facility;
 - (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
 - (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
 - (d) administration and other general overhead costs.
- 20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:
- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
 - (b) initial operating losses, such as those incurred while demand for the item's output builds up; and
 - (c) costs of relocating or reorganising part or all of an entity's operations.

- 21 Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.
- 22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see HKAS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. HKAS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.
- 22A Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

Measurement of cost

- 23 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with HKAS 23.
- 24 One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- 25 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
- (a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
 - (b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
 - (c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

- 26 The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an entity is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

- 27 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with HKAS 17.
- 28 The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Measurement after recognition

- 29 **An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.**

Cost model

- 30 **After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

Revaluation model

- 31 **After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.**

32 [Deleted]

33 [Deleted]

- 34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

- 35 When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

- (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

- 36 **If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.**

- 37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

- (a) land;
- (b) land and buildings;
- (c) machinery;
- (d) ships;

- (e) aircraft;
- (f) motor vehicles;
- (g) furniture and fixtures; and
- (h) office equipment; and
- (i) bearer plants.

38 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

39 **If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.**

40 **If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.**

41 The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

42 The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with HKAS 12 *Income Taxes*.

Depreciation

43 **Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**

44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

45 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47 An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

48 The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

49 The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see HKAS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with HKAS 38 *Intangible Assets*.

Depreciable amount and depreciation period

50 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

51 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

52 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

53 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

55 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
- (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

- 57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.
- 58 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
- 59 If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation method

- 60 **The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.**
- 61 **The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with HKAS 8.**
- 62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.
- ~~62A A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.~~

Impairment

- 63 To determine whether an item of property, plant and equipment is impaired, an entity applies HKAS 36 *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.
- 64 [Deleted]

Compensation for impairment

- 65 **Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.**
66. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
- (a) impairments of items of property, plant and equipment are recognised in accordance with HKAS 36;
 - (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
 - (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and
 - (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

- 67 **The carrying amount of an item of property, plant and equipment shall be derecognised:**
- (a) on disposal; or
- (b) when no future economic benefits are expected from its use or disposal.
- 68 **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless HKAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
- 68A However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with HKAS 18 *Revenue*. HKFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.
- 69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in HKAS 18 for recognising revenue from the sale of goods. HKAS 17 applies to disposal by a sale and leaseback.
- 70 If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
- 71 **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**
- 72 The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with HKAS 18 reflecting the effective yield on the receivable.

Disclosure

- 73 **The financial statements shall disclose, for each class of property, plant and equipment:**
- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
- (i) additions;

Effective date

- 81** **An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.**
- 81a If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period(s).
- 81A An entity shall apply the amendments in paragraph 3 for annual periods beginning on or after 1 January 2006. If an entity applies HKFRS 6 for an earlier period, those amendments shall be applied for that earlier period.
- 81B HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraphs 39, 40 and 73(e)(iv). An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.
- 81C HKFRS 3 *Business Combinations* (as revised in 2008) amended paragraph 44. An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies HKFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.
- 81D Paragraphs 6 and 69 were amended and paragraph 68A was added by *Improvements to HKFRSs* issued in October 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the related amendments to HKAS 7 *Statement of Cash Flows*.
- 81E Paragraph 5 was amended by *Improvements to HKFRSs* issued in October 2008. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted if an entity also applies the amendments to paragraphs 8, 9, 22, 48, 53, 53A, 53B, 54, 57 and 85B of HKAS 40 at the same time. If an entity applies the amendment for an earlier period it shall disclose that fact.
- 81F HKFRS 13, issued in June 2011, amended the definition of fair value in paragraph 6, amended paragraphs 26, 35 and 77 and deleted paragraphs 32 and 33. An entity shall apply those amendments when it applies HKFRS 13.
- 81G *Annual Improvements 2009-2011 Cycle*, issued in June 2012, amended paragraph 8. An entity shall apply that amendment retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.
- 81H *Annual Improvements to HKFRSs 2010-2012 Cycle*, issued in January 2014, amended paragraph 35 and added paragraph 80A. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.
- 81I *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to HKAS 16 and HKAS 38)*, issued in June 2014, amended paragraph 56 and added paragraph 62A. An entity shall apply those amendments prospectively 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.
- 81J *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

- 81K *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41), issued in August 2014, amended paragraphs 3, 6 and 37 and added paragraphs 22A and 81L–81M. 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. An entity shall apply those amendments retrospectively, in accordance with HKAS 8, except as specified in paragraph 81M.
- 81L In the reporting period when *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41) is first applied an entity need not disclose the quantitative information required by paragraph 28(f) of HKAS 8 for the current period. However, an entity shall present the quantitative information required by paragraph 28(f) of HKAS 8 for each prior period presented.
- 81M An entity may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies *Agriculture: Bearer Plants* (Amendments to HKAS 16 and HKAS 41) and use that fair value as its deemed cost at that date. Any difference between the previous carrying amount and fair value shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Withdrawal of other pronouncements

- 82 This Standard supersedes SSAP 17 *Property, Plant and Equipment* revised in 2001.
- 83 This Standard supersedes the following Interpretations: (a) Interpretation 1 *Costs of Modifying Existing Software* and Interpretation 5 *Property, Plant and Equipment—Compensation for the Impairment or Loss of Items*

CONTENTS

*from paragraph***BASIS FOR CONCLUSIONS ON
IAS 16 *PROPERTY, PLANT AND EQUIPMENT***

INTRODUCTION	BC1
SCOPE	BC4
RECOGNITION	BC5
Classification of servicing equipment	BC12A
MEASUREMENT AT RECOGNITION	BC13
Asset dismantlement, removal and restoration costs	BC13
Asset exchange transactions	BC17
MEASUREMENT AFTER RECOGNITION	BC25
Revaluation model	BC25
Revaluation method—proportionate restatement of accumulated depreciation when an item of property, plant and equipment is revalued	BC25A
Depreciation: unit of measure	BC26
Depreciation: depreciable amount	BC28
Depreciation: depreciation period	BC30
Depreciation: depreciation method	BC33
DERECOGNITION	BC34
Derecognition date	BC34
GAIN CLASSIFICATION	BC35
ASSETS HELD FOR RENTAL TO OTHERS	BC35A
TRANSITIONAL PROVISIONS	BC36
SUMMARY OF CHANGES FROM THE EXPOSURE DRAFT	BC37

<u>ACCOUNTING FOR BEARER PLANTS (2014 AMENDMENTS)</u>	<u>BC38</u>
<u>Overview</u>	<u>BC38</u>
<u>Background</u>	<u>BC39</u>
<u>CHANGES TO THE PROPOSALS IN THE ED</u>	<u>BC46</u>
<u>SCOPE OF THE AMENDMENTS</u>	<u>BC48</u>
<u>BASIS FOR ACCOUNTING FOR BEARER PLANTS IN IAS 16</u>	<u>BC63</u>
<u>Support for the use of IAS 16</u>	<u>BC64</u>
<u>Cost-benefit considerations</u>	<u>BC68</u>
<u>BIOLOGICAL TRANSFORMATION</u>	<u>BC69</u>
<u>Accounting for bearer plants before they mature</u>	<u>BC70</u>
<u>Accounting for produce growing on a bearer plant</u>	<u>BC73</u>
<u>APPLICATION OF THE IAS 16 REQUIREMENTS TO BEARER PLANTS</u>	<u>BC80</u>
<u>Unit of measure</u>	<u>BC80</u>
<u>Point of maturity</u>	<u>BC82</u>
<u>Other recognition and measurement requirements of the cost model</u>	<u>BC83</u>
<u>Disclosure requirements of the cost model</u>	<u>BC86</u>
<u>Revaluation model</u>	<u>BC92</u>
<u>Positing of requirements</u>	<u>BC94</u>
<u>TRANSITION REQUIREMENTS</u>	<u>BC95</u>
<u>Current IFRS preparers</u>	<u>BC95</u>
<u>First-time adoption of IFRS</u>	<u>BC98</u>
<u>ANALYSIS OF THE LIKELY EFFECTS OF THE AMENDMENTS</u>	<u>BC99</u>
<u>How the amendments are likely to affect how activities are reported</u>	<u>BC106</u>
<u>How the amendments affect the comparability of financial statements</u>	<u>BC108</u>
<u>How the amendments will improve a user's ability to assess future cash flows</u>	<u>BC111</u>
<u>How the amendments will affect economic decision-making and the costs of analysis for users of financial statements</u>	<u>BC114</u>
<u>Effect on the compliance costs for preparers</u>	<u>BC116</u>
<u>DISSENTING OPINIONS</u>	

Basis for Conclusions on IAS 16 *Property, Plant and Equipment*

This Basis for Conclusions accompanies, but is not part of, IAS 16.

HKAS 16 is based on IAS 16 *Property, Plant and Equipment*. In approving HKAS 16, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IAS 16. Accordingly, there are no significant differences between HKAS 16 and IAS 16. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IAS 16 referred to below generally correspond with those in HKAS 16.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 16 *Property, Plant and Equipment* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 16. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC2A *Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41), issued in June 2014, amended the scope of IAS 16 to include bearer plants. IAS 41 *Agriculture* applies to the produce growing on those bearer plants. The amendments define a bearer plant and require bearer plants to be accounted for as property, plant and equipment in accordance with IAS 16. These amendments are discussed in paragraphs BC38–BC117.
- BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for property, plant and equipment that was established by IAS 16, this Basis for Conclusions does not discuss requirements in IAS 16 that the Board has not reconsidered.

Scope

- BC4 The Board clarified that the requirements of IAS 16 apply to items of property, plant and equipment that an entity uses to develop or maintain (a) biological assets and (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources. The Board noted that items of property, plant and equipment that an entity uses for these purposes possess the same characteristics as other items of property, plant and equipment.

Recognition

- BC5 In considering potential improvements to the previous version of IAS 16, the Board reviewed its subsequent expenditure recognition principle for two reasons. First, the existing subsequent expenditure recognition principle did not align with the asset recognition principle in the *Framework*^{*}. Second, the Board noted difficulties in practice in making the distinction it required between expenditures that maintain, and those that enhance, an item of property, plant and equipment. Some expenditures seem to do both.
- BC6 The Board ultimately decided that the separate recognition principle for subsequent expenditure was not needed. As a result, an entity will evaluate all its property, plant and equipment costs under IAS 16's general recognition principle. Also, if the cost of a replacement for part of an item of property, plant and equipment is recognised in the carrying amount of an asset, then an entity will derecognise the carrying amount of what was replaced to avoid carrying both the replacement and the replaced portion as assets. This derecognition occurs whether or not what is replaced is a part of an item that the entity depreciates separately.

* References to the *Framework* are to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

- BC7 The Board's decision on how to handle the recognition principles was not reached easily. In the Exposure Draft (ED), the Board proposed to include within IAS 16's general recognition principle only the recognition of subsequent expenditures that are replacements of a part of an item of property, plant and equipment. Also in the ED, the Board proposed to modify the subsequent expenditure recognition principle to distinguish more clearly the expenditures to which it would continue to apply.

- BC33A The IASB decided to amend IAS 16 to address the concerns regarding the use of a revenue-based method for depreciating an asset. The IASB's decision was in response to a request to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. The issue raised is related to the application of paragraphs 97–98 of IAS 38 Intangible Assets although the IASB decided to address the issue broadly, rather than limit it only to intangible assets arising in an SCA.
- BC33B The IASB observed that a revenue-based depreciation method is one that allocates an asset's depreciable amount based on revenues generated in an accounting period as a proportion of the total revenues expected to be generated over the asset's useful economic life. The total revenue amount is affected by the interaction between units (ie quantity) and price and takes into account any expected changes in price.
- BC33C The IASB observed that paragraph 60 of IAS 16 states that the depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The IASB noted that even though revenue could sometimes be considered to be a measurement of the output generated by the asset, revenue does not, as a matter of principle, reflect the way in which an item of property, plant and equipment is used or consumed. The IASB observed that the price component of revenue may be affected by inflation and noted that inflation has no bearing upon the way in which an asset is consumed.
- BC33D On the basis of the guidance in IAS 16, the IASB proposed to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation* (Proposed amendments to IAS 16 and IAS 38) (the 'ED') that a method of depreciation that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.
- BC33E During its redeliberations of the ED the IASB decided to reaffirm its conclusion that the use of a revenue-based method is not appropriate, because the principle in paragraph 60 of IAS 16 is that the "depreciation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity". A method that is based on revenue generated from an activity that includes the use of an asset would be, in contrast, a method based on the generation of future economic benefits from the use of the asset. As a result of the feedback received on the ED, the IASB also decided not to retain the comments that it had included in the Basis for Conclusions on the ED on the limited circumstances in which a revenue-based method gives the same result as a units of production method. Many respondents to the ED found these comments contradictory to the guidance proposed in the Standard.
- BC33F In the ED the IASB proposed to provide guidance to clarify the role of obsolescence in the application of the diminishing balance method. In response to the comments received about the proposed guidance the IASB decided to change the focus of this guidance. The IASB decided to explain that expected future reductions in the selling price of an item could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. The IASB noted that the expectation of technical or commercial obsolescence is relevant for estimating both the pattern of consumption of future economic benefits and the useful life of an asset. The IASB noted that the diminishing balance method is an accepted depreciation methodology in paragraph 62 of IAS 16, which is capable of reflecting an accelerated consumption of the future economic benefits embodied in the asset.
- BC33G Some respondents to the ED suggested that the IASB should define the notion of 'consumption of economic benefits' and provide guidance in this respect. During its redeliberations the IASB decided against doing so, noting that explaining the notion of consumption of economic benefits would require a broader project.

Accounting for bearer plants (2014 amendments)

Overview

BC38 The Board observed that there is a class of biological assets, bearer plants, that are held by an entity solely to grow produce over their productive life. The Board's principal decision underlying the 2014 amendments is that bearer plants should be treated as property, plant and equipment, for which the accounting is prescribed in IAS 16. IAS 16 permits the use of either a cost model or a revaluation model.

Background

BC39 Prior to the 2014 amendments, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell based on the principle that their biological transformation is best reflected by fair value measurement. IAS 41 defines 'biological transformation' as follows:

Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

BC40 IAS 41 has a single accounting treatment for all bearer and consumable biological assets within its scope. IAS 41 only distinguishes between bearer and consumable biological assets for disclosure purposes (see paragraphs 43–44 of IAS 41).

BC41 Stakeholders told the Board that they think that fair value measurement is not appropriate for mature bearer biological assets such as oil palms and rubber trees because they are no longer undergoing significant biological transformation. The use of mature bearer biological assets such as these is seen by many as similar to that of manufacturing. Consequently, they said that a cost model should be permitted for those bearer biological assets, because it is permitted for property, plant and equipment. They also said that they had concerns about the cost, complexity and practical difficulties of fair value measurements of bearer biological assets in the absence of markets for those assets, and about the volatility from recognising changes in the fair value less costs to sell in profit or loss. Furthermore, they asserted that investors, analysts and other users of financial statements adjust the reported profit or loss to eliminate the effects of changes in the fair values of these bearer biological assets.

BC42 Most respondents who cited agriculture in their responses to the Board's 2011 Agenda Consultation raised concerns in relation to fair value measurement of plantations, for example oil palm and rubber trees plantations, and favoured a limited-scope project for these bearer biological assets to address the concerns in paragraph BC41. Only a small number of respondents favoured a broader consideration of IAS 41 or a Post-implementation Review, or said that there is no need to amend IAS 41.

BC43 Before the limited-scope project for bearer biological assets was added to its work programme, the Board was monitoring the work undertaken by the Asian-Oceanian Standard-Setters Group (AOSSG), primarily by the Malaysian Accounting Standards Board (MASB), on a proposal to remove some bearer biological assets from the scope of IAS 41 and account for them in accordance with IAS 16. Those proposals were discussed several times by national standard-setters, the Board's Emerging Economies Group (EEG) and the IFRS Advisory Council. Feedback from these meetings indicated strong support for the AOSSG/MASB proposals and for the Board to start a limited-scope project for bearer biological assets.

BC44 In September 2012 the Board decided to add to its agenda a limited-scope project for bearer biological assets, with the aim of considering whether to account for some or all of them as property, plant and equipment, thereby permitting use of a cost model. The limited-scope project was supported by the following reasons:

- (a) it addressed the accounting treatment for those biological assets for which respondents to the 2011 Agenda Consultation had concerns. It also had significant support among national standard-setters and other interested parties. Furthermore, on the basis of feedback from the 2011 Agenda Consultation and other outreach, the expected changes under the project would be likely to reduce compliance costs for preparers and would not adversely affect users of financial statements.

- (b) it had the advantage of timeliness compared to a more comprehensive project. The Board was able to use the research performed by the MASB and address the main issues relatively quickly. A more comprehensive project would have had to wait for space on the Board's agenda and, once started, might have taken several years.

BC45 The Board decided that it had received sufficient information to develop an Exposure Draft (ED) from work performed by the MASB, meetings of national standard-setters, feedback from preparers on the 2011 Agenda Consultation and user outreach performed by staff. Furthermore, the project was expected to result in limited changes that were sought by both users and preparers of financial statements, as explained in more detail in the analysis of the likely effects of the amendments in paragraphs BC99–BC117. Consequently, the Board decided that the project could proceed without a Discussion Paper and developed an ED that was issued in June 2013.

Changes to the proposals in the ED

BC46 The Board received 72 comment letters on the ED. The vast majority of respondents supported the proposal in the ED to account for bearer plants in accordance with IAS 16. Three additional issues raised by respondents were:

- (a) extend the scope of the amendments to other biological assets (see paragraphs BC54–BC58);
- (b) do not require fair value measurement of growing produce (see paragraphs BC75–BC78); and
- (c) provide guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it reaches maturity (see paragraph BC82).

BC47 As a result of the Board's redeliberations of the issues raised on the ED, three changes were made to the proposed amendments in the ED, other than drafting changes. Those three changes were:

- (a) modifying criterion (c) of the definition of a bearer plant (see paragraph BC62);
- (b) clarifying the transition provisions (see paragraph BC96); and
- (c) exempting entities from the disclosure requirements in paragraph 28(f) of IAS 8 for the current period in both the amendments to IAS 16 and the amendments to IAS 41 (see paragraph BC97).

Paragraphs BC48–BC117 summarise the Board's considerations in developing the amendments and its reasons for only making limited changes to the amendments proposed in the ED.

Scope of the amendments

BC48 The Board decided that, before it could consider whether some or all bearer biological assets should be accounted for in accordance with IAS 16 instead of IAS 41, it first needed to define bearer biological assets for the purposes of the amendments. The Board initially discussed four options when deciding on the scope:

- (a) Option 1: no-alternative-use model. Limit the scope of the amendments to IAS 41 to biological assets that are solely used in the production or supply of agricultural produce (ie only used as bearer biological assets) and that are expected to be used for more than one period.
- (b) Option 2: predominant-use model. Limit the scope of the amendments to IAS 41 to biological assets that are used predominantly in the production or supply of

agricultural produce (ie used primarily as bearer biological assets) and that are expected to be used for more than one period.

- (c) Option 3: no-alternative-use model—plants only. This is the same as Option 1 except that it would only include plants, not livestock.
- (d) Option 4: predominant-use model—plants only. This is the same as Option 2 except that it would only include plants, not livestock.

BC49 The Board's first consideration when setting the scope of the amendments to IAS 41 was whether to follow a 'no-alternative-use' model or a 'predominant-use' model. The Board observed that many types of livestock that are used as bearer biological assets by an entity also have a common alternative use as a consumable biological asset. For example, an entity may choose to rear a sheep for its wool (bearer attribute) and/or for its meat (consumable attribute). It was also observed that some trees are cultivated both for their lumber, for example, for furniture production (consumable attribute) and for their fruit (bearer attribute).

BC50 The Board observed that a predominant-use model would be more difficult to apply than a no-alternative-use model because it would require additional judgement to be applied in order to determine the predominant use, and would need to address the consequences of reclassifications between IAS 16 and IAS 41 if the predominant use changes. In contrast, if the scope is restricted to biological assets that are solely used as bearer biological assets, the need to apply judgement and make reclassifications would be expected to be rare.

BC51 The Board further noted that, if an entity intends to sell a biological asset as agricultural produce after it has been used as a bearer biological asset for a period of time, fair value measurement would provide useful information about the future economic benefits from the future sale of the asset. Furthermore, if a biological asset is commonly sold as agricultural produce, there will often be an active market for sale of that biological asset separately from land, meaning that fair value information is likely to be readily available and easier to apply than cost measurement. The Board also noted that the concerns raised by respondents to the 2011 Agenda Consultation generally relate to plants that do not have an alternative use to the entity and that do not have a market value separate from the land component. Consequently, any sales transactions that take place in the market are likely to be of bearer plants plus land, and possibly whole plantations. For these reasons, the Board decided to limit the scope to biological assets that are solely used as bearer biological assets.

BC52 The Board's second consideration when setting the scope was whether livestock should be included within the amendments to IAS 41. The Board observed that including livestock would make the use of a cost model more complex. Unlike plants, livestock is not attached to land and there is usually an active market for it, meaning that fair value information is likely to be readily available and easier to apply than cost measurement. As noted in paragraph BC51, concerns raised by respondents to the 2011 Agenda Consultation mainly relate to plants, not livestock. Consequently, the Board decided to restrict the scope to plants.

BC53 On the basis of the considerations in paragraphs BC49–BC52, the Board decided on Option 3.

BC54 Many respondents to the ED said that the concerns outlined by interested parties in paragraph BC41 about fair value measurement and the Board's reasoning in the ED for accounting for bearer plants in accordance with IAS 16 (repeated in paragraphs BC63–BC68) apply equally to other biological assets, such as bearer livestock and plants predominantly used to produce agricultural produce. These respondents said that there was no conceptual basis for singling out bearer plants and that all biological assets used in the production or supply of agricultural produce should be accounted for in the same way.

BC55 During redeliberations of the proposals in the ED, the Board noted that the limited-scope project was added to the Board's agenda to respond to concerns raised by respondents to the 2011 Agenda Consultation, which were raised primarily about plants used solely to bear agricultural produce, for example, oil palm and rubber tree plantations. When the limited-scope project was added to the Board's agenda, the Board had noted that it did not have the resources at that time to perform a comprehensive review of IAS 41. However, the Board had observed that a limited-scope project could be addressed quickly.

BC56 Most respondents to the ED who suggested expanding the scope to livestock did not acknowledge that a key reason the Board limited the scope to bearer plants was the

complexities of measuring the initial cost of bearer livestock. A few respondents disagreed with the Board's observation in paragraph BC52 that a cost model would be complex to implement for bearer livestock and noted that cost-based models are used for livestock in some jurisdictions. However, they did not provide any further information on how a cost model like the one in IAS 16 can be applied to livestock.

BC57 The Board observed that before and during development of the amendments it had received significant information from interested parties about the consequences of including bearer plants in IAS 16. However, the Board noted that it had only received limited information about these issues within the context of other biological assets. The Board agreed that the scope of the project should not be expanded without understanding whether IAS 16 is appropriate and can be applied consistently to those biological assets. The Board observed that obtaining this understanding would take time and delay completion of the ED. The Board also noted that such requests for an expanded scope would increase the complexity of the project and raise conceptual issues that did not belong in a limited-scope project but instead in a comprehensive review of IAS 41.

BC58 The Board agreed that the amendments address an immediate need for plantation businesses and are generally perceived by respondents to result in a significant improvement in financial reporting. Consequently, the Board decided not to expand the limited scope of the amendments with the aim of finalising the amendments quickly.

BC59 The ED defined a bearer plant as a plant that is:

- (a) used in the production or supply of agricultural produce;
- (b) expected to bear produce for more than one period; and
- (c) not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

BC60 The Board noted that some crops are perennial plants because their roots remain in the ground to sprout for the next period's crop. An example would be sugarcane if its roots are retained for a second harvest. The Board agreed that if an entity retains the roots to bear produce for more than one period and the roots are not later sold, the roots would meet the definition of a bearer plant. The Board decided that this did not need to be clarified in the amendments and most respondents to the ED agreed.

BC61 Some respondents to the ED asked for guidance on applying the definition of a bearer plant to a range of plants. Because of the diversity of bearer plants, the Board decided not to add guidance on specific types of plants.

BC62 The Board decided to amend criterion (c) of the definition to state 'has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales' to ensure that the amendment captures only those plants used solely in the production or supply of agricultural produce. The Board also clarified in the definition that a bearer plant is a living plant. No other changes were made to the proposed definition.

Basis for accounting for bearer plants in IAS 16

BC63 The Board considered whether the current requirements in IAS 16 for property, plant and equipment are appropriate for bearer plants and also considered the concerns raised by interested parties in paragraph BC41. The Board concluded that applying IAS 16 to bearer plants is appropriate. Paragraphs BC64–BC68 explain the reasons supporting the Board's conclusion.

Support for the use of IAS 16

BC64 Prior to the 2014 amendments, IAS 41 required all biological assets related to agricultural activity to be measured at fair value less costs to sell, based on the principle that their biological transformation is best reflected by fair value measurement. However, mature bearer plants are fully grown and so, apart from bearing produce, biological transformation is no longer significant in generating future economic benefits. Bearer plants are used solely to grow

produce over several periods. After this time they are usually scrapped. Consequently, the only significant future economic benefits from bearer plants arise from selling the agricultural produce that they create.

BC65 The Board noted that while fair value measurement may provide an indication of the quality and productive capacity of the bearer plants at a point in time, it is less important to users of financial statements than it is for biological assets whose value may be realised through sale as agricultural produce.

BC66 Bearer plants meet the definition of property, plant and equipment. The use of mature bearer plants to produce agricultural produce is similar to the use of machinery to manufacture goods. The manner in which an entity derives economic benefits from bearer plants and a production plant is similar and that manner differs from biological assets that are harvested for sale. The progressive decline in the future earning potential of a bearer plant over its life is also similar to other depreciable assets, for example, plant and machinery.

BC67 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the decision-usefulness of the reported information. The land upon which bearer plants are growing, the structures used to support their growth and the agricultural machinery are measured in accordance with IAS 16. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used supports accounting for them in the same way.

Cost-benefit considerations

BC68 The Board noted that, on the basis of the responses to the 2011 Agenda Consultation and the outreach performed by the staff, the costs of measuring bearer plants at fair value are perceived by many preparers to exceed the benefits to users of financial statements. The Board also observed that nearly all investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants has limited use to them. The main reasons given by the investors and analysts were:

- (a) information about operating performance and cash flows is more relevant to their forecasting and analysis. Consequently, they eliminate changes in the fair value less costs to sell of bearer plants from the figures used for their analysis.
- (b) there are concerns about relying on the fair value measurements because valuations involve significant management judgement, have the potential for manipulation, and assumptions vary significantly between companies.
- (c) fair value information about bearer plants is not very useful without fair value information about the related land, land improvements, agricultural machinery, etc.

Biological transformation

BC69 The IAS 41 fair value model is based on the principle that biological transformation is best reflected by fair value measurement. Once bearer plants mature, they are held by an entity solely to grow produce and so, apart from bearing produce, their biological transformation is no longer significant in generating future economic benefits. Consequently, the Board decided bearer plants should be accounted for under IAS 16 instead of IAS 41 (see paragraphs BC63–BC68). However, the Board noted that the same argument is not true for bearer plants before they reach maturity and bear produce. Until they reach maturity, bearer plants are in a growth phase and so undergo significant biological transformation. Furthermore, the Board noted that the produce growing on the bearer plants is undergoing biological transformation until it is harvested (for example, grapes growing on a grape vine). Paragraphs BC70–BC79 explain the reasons supporting the Board’s conclusions regarding bearer plants before they reach maturity and the produce growing on the bearer plants.

Accounting for bearer plants before they mature

BC70 The Board considered whether a fair value approach or a cost accumulation approach should be applied to bearer plants before they reach maturity.

- BC71 The Board noted that, before they mature, bearer plants undergo biological transformation and this distinguishes them from self-constructed property, plant and equipment. Such biological transformation would not be reflected by a cost accumulation approach. The Board further noted that a fair value approach would be consistent with the principle in IAS 41 that biological transformation is best reflected by fair value measurement.
- BC72 However, the Board noted that IAS 16 does not incorporate internal profit in the measurement of a self-constructed item of machinery. By analogy, biological transformation should not be included either. The Board further noted that most of the investors and analysts consulted during the outreach performed by the staff said that the IAS 41 fair value information about bearer plants is of limited use to them and that the measurement of the fair values of bearer plants is particularly subjective during the early years of the life cycle of those bearer plants. For these reasons the Board decided that bearer plants should be measured at accumulated cost before they reach maturity. The Board also observed that it would be simpler to keep bearer plants in IAS 16 throughout their life. Virtually all respondents to the ED supported measuring bearer plants using a cost accumulation approach before they mature.

Accounting for produce growing on a bearer plant

- BC73 The Board considered whether produce should be recognised at fair value less costs to sell only at the point of harvest or from the date that it starts to grow.
- BC74 The Board observed that the produce is a consumable biological asset growing on the bearer plant and the growth of the produce directly increases the expected revenue from the sale of the produce. Consequently, fair value measurement of the growing produce provides useful information to users of financial statements about future cash flows that an entity will actually realise. In contrast the bearer plants themselves are not sold and the changes in the fair value of the bearer plants do not directly influence the entity's future cash flows. The Board also observed that produce will ultimately be detached from the bearer plants and is normally sold separately, meaning it has a market value on its own. This is in contrast to many bearer plants that are unlikely to have an observable market value on their own because they can only be sold while attached to the land.
- BC75 Many respondents to the ED acknowledged the conceptual reasons for accounting for produce at fair value less costs to sell, but expressed concern with the likely practical challenges. Some respondents suggested only requiring fair value less costs to sell to be measured at the point of harvest, or providing additional relief from fair value measurement on the basis of cost-benefit considerations. Other respondents suggested accounting for produce using a cost model before harvest, similarly to inventories or work in progress. Several respondents said further guidance should be provided on how to measure the produce at fair value.
- BC76 The Board acknowledged that measuring produce growing on bearer plants at fair value less costs to sell might sometimes be difficult to apply in practice. However, it was noted that similar difficulties are encountered when measuring the fair value less costs to sell of produce growing in the ground. Consequently, the Board decided that it would be inconsistent to provide additional relief from fair value measurement for produce growing on a bearer plant and not also for other biological assets within the scope of IAS 41.
- BC77 The Board observed that if preparers encounter significant practical difficulties on initial measurement of produce, they should consider whether they meet the requirements of the exemptions in paragraphs 10(c) and 30 of IAS 41. Paragraph 10(c) of IAS 41 states that an entity shall recognise a biological asset only when the fair value or cost of the asset can be measured reliably. Paragraph 30 of IAS 41 requires a biological asset to be measured using a cost model if fair value measurement is determined to be clearly unreliable. The Board noted that this limited-scope project was not intended to address the fair value model in IAS 41. Consequently, the Board agreed not to further discuss the exemptions in IAS 41 as part of this project.
- BC78 On the basis of the considerations above, the Board decided to reaffirm that produce is a biological asset within the scope of IAS 41 and consequently should be measured at fair value less costs to sell with changes recognised in profit and loss as the produce grows. This would maintain the consistency of accounting for produce growing in the ground and produce growing on a bearer plant. Consequently, the Board decided to keep the produce within the scope of IAS 41.

BC79 The Board noted that most of the areas for which respondents to the ED asked for additional guidance were specific to a particular type of bearer plant or produce. The Board decided that because of the specialised nature and diversity of bearer plants and produce it would be too difficult for the Board to develop additional guidance on measuring the fair value of produce.

Application of the IAS 16 requirements to bearer plants

Unit of measure

BC80 Agricultural activity is often a continuous process, meaning that older plants are continuously removed from service and replaced. The Board noted that, if bearer plants are accounted for using a cost model, this continuous process needs to be made discrete. Consequently, the question arises as to what the unit of measure is—for example, is it the individual plant or some larger aggregation, such as a field or a planting cycle?

BC81 The Board noted that IAS 16 does not prescribe the unit of measure, or the extent to which items can be aggregated and treated as a single item of property, plant and equipment. Consequently, applying the recognition criteria in IAS 16 to bearer plants will require judgement. This would give an entity flexibility, depending on its circumstances, to decide how to aggregate individual plants for the purpose of determining a measurable unit of bearer plants. The Board noted that accounting for an aggregation of plants would be similar to accounting for a large quantity of equipment that is acquired or constructed in batches. For example a company may construct a large number of moulds for use within its business. Some aggregation of the moulds would usually be necessary for determining an item of property, plant and equipment. Consequently, the Board decided that the requirements for the unit of measure in IAS 16 would provide sufficient guidance for bearer plants without modification.

Point of maturity

BC82 Most respondents to the ED requested additional guidance on when a bearer plant is in the 'location and condition necessary for it to be capable of operating in the manner intended by management' in accordance with paragraph 16(b) of IAS 16—ie when it is deemed to have reached maturity. For example, an oil palm may start to grow produce after two years, but only reach its maximum yield after seven years. Respondents suggested either defining the date of maturity to be 'the date of the first harvest of commercial value' or 'the date commercial quantities of produce are produced'. The Board noted that without further clarification these terms would not assist entities in applying judgement in this area and would be likely to lead to interpretation requests in the future. The Board also noted that a similar scenario arises for a factory or retail outlet that is not yet capable of operating at full capacity and did not think that this was a major issue in practice. Consequently, the Board decided not to add guidance in this area.

Other recognition and measurement requirements of the cost model

BC83 The Board considered whether the other recognition and measurement requirements of the cost model in IAS 16 were sufficient to address the unique costs of growing bearer plants both before and after they reach maturity. The following were the main requests for guidance raised by respondents to the ED:

- (a) how to assess what is an abnormal amount of wastage/mortality during the growth phase of the bearer plants. The Board noted that there is a similar issue when an entity constructs a large number of fragile items of machinery for use within the business.
- (b) the nature of costs that can be capitalised before maturity. The Board noted that although the examples in IAS 16 are about non-living items, paragraph 17(a)–(b) and (e) of IAS 16 adequately covers the types of costs incurred to cultivate and grow bearer plants.
- (c) allocation of costs after maturity between the growing fruit and the bearer plant. The Board noted that an entity may recognise all costs as an expense after maturity

unless they meet the criteria for capitalisation as part of bearer plants in accordance with paragraph 7 of IAS 16. Consequently, such guidance would not be necessary.

- (d) transfers between IAS 16 and IAS 41 if the entity changes its intention for a bearer plant or if scrap sales are no longer considered incidental. The Board noted that it would be rare for transfers to take place between IAS 16 and IAS 41 for bearer plants, particularly in the light of the Board's decision to change criterion (c) of the definition of a bearer plant to 'has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales' (see paragraph BC62).

BC84 The Board decided that the current principles in IAS 16 are sufficient to cater for bearer plants without modification or supplement.

BC85 Some respondents to the ED requested guidance on the application of other Standards to bearer plants, for example, IAS 17 Leases, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 Borrowing Costs and IAS 36 Impairment of Assets. However, when commenting on those Standards, respondents did not highlight issues unique to bearer plants. The Board noted that bearer plants meet the definition of property, plant and equipment in IAS 16 and are accounted for as property, plant and equipment. Consequently, bearer plants are items of property, plant and equipment when applying other Standards.

Disclosure requirements of the cost model

BC86 The Board considered the disclosure requirements in IAS 16 and decided that they could be applied to bearer plants without modification. The Board also considered whether any additional disclosures should be required for bearer plants.

BC87 Some Board members were concerned that if entities move from a fair value model to a cost model for bearer plants, decision-useful information about the fair values of bearer plants and the assumptions used to determine those fair value measurements would be lost. However, the Board noted that most of the investors and analysts consulted during the user outreach performed by the staff said that fair value information about bearer plants has limited use to them without fair value information about the related land, agricultural machinery, etc. Furthermore, virtually all respondents to the ED said that disclosure of fair value information about bearer plants and/or information about the significant inputs used in valuation techniques should not be required.

BC88 The Board noted that there is no clear basis for requiring fair value disclosures for bearer plants when such disclosures are not required for the rest of the property, plant and machinery involved in the process of growing the produce. It also noted that there is also no clear basis for requiring entities with bearer plants to provide fair value disclosures for their land when these disclosures are not required for land used for other purposes. The Board further acknowledged that the limited-scope project was not intended to address fair value disclosure requirements for other assets in IAS 16. Consequently, the Board decided not to require additional fair value disclosures for entities with bearer plants.

BC89 During user outreach, many investors and analysts told the staff that instead of using fair value information they use other information, for example, about yield, acreage and age of bearer plants. This information is usually obtained via the presentations made to analysts, the front of annual reports (for example, in the Management Commentary) or is otherwise received directly from companies. Many respondents to the ED acknowledged that disclosures about productivity and future cash flows are useful to users of financial statements, but most said that such disclosures should not be mandatory and belonged outside the financial statements.

BC90 Some respondents to the ED noted that disclosure of non-financial measures of physical quantities of biological assets and output of agricultural produce is currently required for all biological assets in paragraph 46 of IAS 41. They said that including bearer plants in IAS 16 would mean that this disclosure requirement would no longer apply to them. The Board observed that this is likely to have a limited effect in practice because the disclosures in paragraph 46 of IAS 41 will continue to apply to the produce in IAS 41 as follows:

- (a) paragraph 46(a) and (b)(ii) of IAS 41—the Board noted that the disclosures made by entities in accordance with paragraphs 46(a) and (b)(ii) would be the same regardless of whether those paragraphs refer to the entire plant or only the produce.

- (b) paragraph 46(b)(i) of IAS 41—the Board noted that paragraph 46(b)(i) now applies to physical quantities of produce instead of physical quantities of entire plants. The Board noted that paragraph 46(b)(i) does not stipulate the type of non-financial measures or estimates that an entity needs to provide. The Board also noted that plantation companies generally provide more information about productivity of bearer plants outside the financial statements than is required by paragraph 46 of IAS 41 and would be likely to continue to disclose their chosen non-financial measures of bearer plants even if this paragraph only refers to produce.

Consequently, the Board decided not to add the disclosures in paragraph 46 of IAS 41 to IAS 16.

- BC91 The Board observed that agricultural activity is diverse and it would be difficult to identify specific productivity disclosures that would provide useful information for users of financial statements and cover all types of bearer plants. The Board also observed that if additional productivity disclosures were included in IAS 16 for bearer plants (other than those in paragraph 46 of IAS 41), it would be difficult to justify requiring them in IAS 16 for bearer plants and not in IAS 41 for other biological assets. The Board noted that reconsidering the disclosure requirements of IAS 41 was outside the scope of this project. Consequently, the Board decided not to add any additional disclosures in IAS 16 for bearer plants.

Revaluation model

- BC92 IAS 16 permits entities to choose either the cost model or the revaluation model for each class of property, plant and equipment. The Board decided that the same accounting policy options should be permitted for bearer plants. Consequently, the Board decided that the revaluation model in IAS 16 should be permitted for bearer plants.

- BC93 Most respondents to the ED supported allowing entities an option to use the revaluation model. However, some respondents asked for guidance on applying the revaluation model to bearer plants. The Board decided that the requirements of the revaluation model are clear without additional guidance and it noted its expectation that the vast majority of entities with bearer plants will use the cost model for the reasons set out in paragraph BC103. Consequently, the Board confirmed that the revaluation model would be permitted for bearer plants and decided not to add additional guidance.

Positioning of requirements

- BC94 The Board observed that there was some benefit to keeping all of the requirements for agricultural activity together. However, the Board noted that the requirements in IAS 16 would be applied to bearer plants with virtually no modification. Furthermore, bearer plants meet the definition of property, plant and equipment and are used like property, plant and equipment within the business. Virtually all respondents to the ED supported including bearer plants within the scope of IAS 16. The Board thus confirmed that it would include bearer plants within the scope of IAS 16.

Transition requirements

Current IFRS preparers

- BC95 The Board noted that if an entity currently measures its bearer plants at fair value less costs to sell and has not previously collected cost information, collecting this information to measure the cost of those bearer plants may be costly. If bearer plants have long life cycles, entities could be required to look back several decades in order to obtain the necessary information. Consequently, for cost-benefit reasons, the Board decided that the amendments to IAS 16 should permit the use of fair value as deemed cost for items of bearer plants at the beginning of the earliest comparative period presented in the financial statements. The Board also noted that the amendments address an immediate need for entities with bearer plants. Consequently, the Board decided that the amendments should be available for early application.

- BC96 Virtually all respondents to the ED supported the transition requirements without change. However, some respondents said that the Board should clarify how to account for differences between fair value and the carrying value determined in accordance with IAS 41 (fair value less costs to sell) at the transition date. The Board agreed.

BC97 The Board noted that on the initial application of the amendments, paragraph 28(f) of IAS 8 would require an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. The Board observed that requiring this disclosure requirement for the current year would be burdensome because it would require an entity to maintain dual systems in the year of initial application. The Board noted that not requiring this disclosure for the current year would be consistent with its other decisions during the project. Consequently for both the amendments to IAS 16 and the amendments to IAS 41, the Board decided to exempt entities from providing the disclosure required by paragraph 28(f) for the current period. Entities would still be required to provide those disclosures for each prior period presented in the financial statements.

First-time adoption of IFRS

BC98 Consistent with the reasoning for accounting for bearer plants as property, plant and equipment (see paragraphs BC63–BC68), the Board decided that the same deemed cost exemptions provided for property, plant and equipment in IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be available for bearer plants. Virtually all respondents to the ED supported this requirement for first-time adopters of IFRSs. The Board thus confirmed the proposals for first-time adopters. The Board noted that no consequential amendments to IFRS 1 were required because bearer plants are accounted for as items of property, plant and equipment. Consequently, exemptions already provided in IFRS 1 would address first-time application issues related to bearer plants.

Analysis of the likely effects of the amendments

BC99 The following paragraphs describe the Board's analysis of the likely effects that will result from the amendments to the requirements for the accounting for bearer plants.

BC100 The Board is committed to assessing and sharing knowledge about the likely costs of implementing new requirements, and the likely ongoing application costs and benefits of each new or revised Standard—the costs and benefits are collectively referred to as 'effects'.

BC101 The Board gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities. The likely effects are assessed:

- (a) in the light of the Board's objective of financial reporting transparency; and
- (b) in comparison to the existing financial reporting requirements.

BC102 In evaluating the likely effects of the amendments, the Board has considered the following issues (see paragraphs BC106–BC117):

- (a) how the changes are likely to affect how bearer plants are reported in the financial statements of those applying IFRS;
- (b) whether those changes improve the comparability of financial statements between different reporting periods for an individual entity and between different entities in a particular reporting period;
- (c) whether the changes will improve the ability of users of financial statements to assess the future cash flows of an entity;
- (d) whether the improvements to financial reporting will result in better economic decision-making;
- (e) the likely effect on compliance costs for preparers, both on initial application and on an ongoing basis; and
- (f) whether the likely costs of analysis for users of financial statements, including the costs of extracting data, identifying how it has been measured and adjusting it for the purposes of including that data in, for example, a valuation model, are affected.

BC103 The amendments will permit entities to apply either the cost model or the revaluation model, in accordance with IAS 16, for bearer plants. The Board expects that most entities will choose the cost model instead of the revaluation model, because:

- (a) the revaluation model would not eliminate the main concerns raised by preparers, in particular the cost and complexity of regularly measuring the fair value of bearer plants.
- (b) most entities apply a cost model to agricultural land and machinery and the Board expects that those entities would favour using a consistent approach for all assets used in the production of income, including bearer plants.
- (c) IAS 16 only permits the revaluation model to be used if the fair value of bearer plants can be measured reliably. Many entities with bearer plants told the Board that fair value estimations are often complex and subjective. If fair value cannot be measured reliably, use of the revaluation model would be precluded.

BC104 Consequently, the analysis of the likely effects in paragraphs BC106–BC117 only considers the likely effects of applying the IAS 16 cost model in comparison to the IAS 41 fair value model.

BC105 If entities choose to account for bearer plants using the revaluation model in IAS 16, the most significant effect would be to require changes in the revalued amount, which approximates fair value, to be recognised in other comprehensive income. Currently, changes in fair value less costs to sell are recognised in profit or loss under IAS 41.

How the amendments are likely to affect how activities are reported

BC106 The amendments will only affect specific types of agricultural activity, namely those entities with bearer plants.

BC107 Assuming that current IFRS adopters choose to apply the cost model in IAS 16 to bearer plants the main changes will be as follows:

<u>Effect</u>	<u>Fair value model in IAS 41</u>	<u>Cost model in IAS 16</u>	<u>Effect</u>
<u>Financial position</u>	<u>Measured at fair value less costs to sell (together with the produce).</u>	<u>Measured at cost less any accumulated depreciation and any accumulated impairment losses. (Produce measured separately at fair value less costs to sell.)</u>	<u>Net asset amounts are likely to be lower for the cost model than the fair value model during the earlier part of the productive life of a bearer plant. This is because the future cash flows that can be generated by the bearer plant, and reflected in a fair value measurement, will likely be higher than the cost on initial recognition. Over time, the carrying amounts measured in accordance with the two models are expected to converge as the asset approaches the end of its productive life.</u>

Effect	Fair value model in IAS 41	Cost model in IAS 16	Effect
Profit or loss	<p>Changes in fair value less costs to sell are recognised in profit or loss.</p> <p>Costs may be recognised as an expense immediately or capitalised. If they are capitalised there is an equal reduction in the change in the fair value less costs to sell.</p>	<p>The depreciation charge for each period, and any impairment loss, will be recognised in profit or loss.</p>	<p>Over the life of the bearer plants the net amount recognised in profit or loss will likely be the same whether applying the fair value model or the cost model. However, if an entity applies the fair value model the effect on profit or loss will be variable (changes in fair value). If an entity applies the cost model the effect on profit or loss is likely to be more systematic (depreciation, with possible impairment).</p>

How the amendments affect the comparability of financial statements

Comparability between entities

BC108 The Board does not expect the amendments to significantly reduce the comparability between entities because:

- (a) IAS 41 requires biological assets to be accounted for using the fair value model. The Board does not expect the choice of accounting policy in IAS 16 to reduce comparability between entities with bearer plants because most entities are expected to choose the cost model for the reasons explained in paragraph BC103.
- (b) The primary benefits of using fair value for biological assets are that fair value captures biological development (ie the growth of the produce) and is closely aligned with how the entity expects to convert the asset to cash (ie through sale). The Board has retained fair value for the produce of a bearer plant (for which these primary benefits are applicable) while aligning the accounting for the bearer plant with the accounting for property, plant and equipment. The Board considers that this change will improve comparability by distinguishing between types of biological asset.
- (c) The Board observed that some entities may elect to measure bearer plants at fair value on initial application of the amendments and use that fair value as its deemed cost at that date, while others may elect to apply the amendments retrospectively (eg if they currently use a cost model in accordance with IAS 16 for management purposes). However, the Board noted that if there is any lack of comparability between entities on initial application, it is just as likely to arise from the aggregation of costs incurred at different dates as from the use of fair value as deemed cost by some but not all entities. Furthermore, the use of fair value as the deemed cost for bearer plants means that an entity will report the same cost data as if it had acquired bearer plants with the same remaining service potential at the date of transition to IFRS, eg if it had purchased an area of plantation on that date.

Comparability between reporting periods for an individual entity

BC109 The Board does not expect the amendments to significantly reduce the comparability between reporting periods for an individual entity choosing the cost model. This is because under IAS 41 the change in the fair value less costs to sell of bearer plants can fluctuate significantly between reporting periods as a result of small changes in assumptions. Furthermore, most investors and analysts consulted during the user outreach performed by staff said that they eliminate the change in the fair value less costs to sell of bearer plants when comparing an entity's operating performance between reporting periods.

BC110 Currently, bearer plants are accounted for in a different way from the land, land improvements and agricultural machinery used in the production process. In most cases entities account for these assets at cost under IAS 16. Consequently, accounting for the bearer plants under IAS 16 will improve comparability between the producing assets of the entity by accounting for similar assets in similar ways.

How the amendments will improve a user's ability to assess future cash flows

BC111 IAS 41 currently requires bearer plants to be measured at fair value less costs to sell. Consequently, the requirement to measure fair value applies to both the bearer plant and the produce growing on the bearer plant. As a result of the amendments, only the produce growing on bearer plants will be measured at fair value less costs to sell.

BC112 The produce of bearer plants is usually grown for sale. Consequently, fair value changes in the produce have a direct relationship to the expectations of future cash flows that the entity will receive on sale. In contrast, bearer plants are normally held by an entity for the whole of their useful life and then scrapped, so changes in fair value are not directly recognised as cash flows on sale of the bearer plants. Consequently, the Board thinks that providing separate fair value information for the produce is likely to improve the ability of users of the financial statements to assess future cash flows.

BC113 During the project the staff sought the views of investors and analysts that use the financial statements of companies with bearer plants. Many of these investors and analysts told the staff that they focus on cash flows that an entity is expected to realise. These investors and analysts said that the fair value of bearer plants is not considered in their analysis because the bearer plants themselves are not sold and the changes in the fair value of the bearer plants do not directly influence the entity's future cash flows. Furthermore, some of these investors and analysts said that they would prefer a cost model for bearer plants because it provides a better basis to forecast future capital expenditure than a fair value model.

How the amendments will affect economic decision-making and the costs of analysis for users of financial statements

BC114 There is an assumption inherent in the *Conceptual Framework* that accounting for similar assets in similar ways enhances the usefulness of the reported information. Although bearer plants are dissimilar in form to plant and machinery, similarities in how they are used provides support for accounting for them in the same way.

BC115 As a result of the amendments, users of financial statements will generally receive cost information about bearer plants instead of fair value information. This is not expected to result in less relevant information for users of financial statements because nearly all investors and analysts consulted during the user outreach performed by staff said that the IAS 41 fair value information about bearer plants is of limited use to them for the reasons set out in paragraph BC68.

Effect on the compliance costs for preparers

BC116 Preparers of financial statements have expressed concern that, in the absence of active markets for bearer plants, fair value measurements are complex, time-consuming and costly, especially for entities that hold large plantations with varying maturities, yield profiles and locations. The amendments respond to this concern and are expected to significantly reduce costs for preparers of financial statements by permitting a cost model for bearer plants. However, entities will still be required to perform the following fair value measurements:

- (a) the produce growing on the bearer plants will still be measured at fair value less costs to sell. The Board's reasoning for requiring the produce to be measured at fair value less costs to sell is set out in paragraphs BC73–BC79.
- (b) as is the case for all items of property, plant and equipment, bearer plants will be subject to an impairment test under IAS 36. Consequently, if there is an indication that bearer plants are impaired at the reporting date, the entity would be required to estimate the recoverable amount of the asset (or its cash-generating unit). The

recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

BC117 Nevertheless, the amendments will reduce compliance costs for the majority of entities because:

- (a) the Board thinks that measuring the produce at fair value less costs to sell would be less complex than measuring the bearer plants and produce together at fair value less costs to sell. This is because the produce is growing on the bearer plants only for a short period and so the valuation of produce will not involve forecasting over long time periods. Furthermore, there is usually an active market for the harvested produce, whereas there is rarely an active market for bearer plants and observable market prices generally exist only for many bearer plants together with the land.
- (b) IAS 41 currently requires entities to determine the fair value less costs to sell of bearer plants at each reporting date. As a result of the amendments, an entity applying the cost model in accordance with IAS 16 would be required to estimate the recoverable amount of an item of bearer plants (or the relevant cash-generating unit) only if there are indicators of impairment at the reporting date. In general, bearer plants do not generate cash flows independently of the land. Consequently, the impairment test would take place at the cash-generating unit level. If the fair value of the land is greater than the carrying amount of the cash-generating unit containing the land and bearer plants, the cash-generating unit would not be impaired. Consequently, as a result of the amendments, fair value measurements are expected to be less frequent.

Table of Concordance

This table shows how the contents of the superseded SSAP 17 and the current HKAS 16 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though their guidance may differ.

The table also shows how the requirements of Interpretation 5 have been incorporated into the current HKAS 16.

Superseded SSAP 17 paragraph	Current HKAS 16 paragraph
Introduction	1
1	2
2	None
3	None
4	3
5	4
6	6
7	7
8	None
9	None
10	None
11	None
12	8, 9
13	43-47
14	11
15	15
16	16-18
17	23
18	19, 20
19	22
20	27
21	26
22	None
23	None
24	None

Superseded SSAP 17 paragraph	Current HKAS 16 paragraph
25	None
26	None
27	13
28-29	14
30	30
31	31
32	32
33	32, 33
34	34
35	35
36	36
37	37
38	38
39	39
40	40
41	41
42	None
43	48, 50, 60
44	52
45	56
46	57
47	58
48	51, 53
49	62
50	49
51	51

Superseded SSAP 17 paragraph	Current HKAS 16 paragraph
52	None
53	None
54	61
55	63
56	64
57-65	None
66	67
67	68, 71
68	None
69	69
70	55
71	73
72	74
73	75
74	76
75	77
76	78

Superseded SSAP 17 paragraph or Interpretation	Current HKAS 16 paragraph
77	79
78	81
79	82, 83
80	80A
81	None
82	None
Interpretation 5	65, 66
None	5
None	10
None	12
None	21
None	24, 25
None	28
None	29
None	42
None	54
None	59
None	70
None	72
None	80-82

Dissenting opinion

Dissent of Mary Tokar from *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) as issued in May 2014

- DO1 Ms Tokar is dissenting from the publication of this amendment. She does not object to the IASB's objective of clarifying acceptable methods of depreciation and amortisation, nor to its conclusions to preclude revenue-based depreciation and nor to the introduction of a rebuttable presumption that revenue cannot be used as a basis for amortisation of intangibles. She also agrees that expectations of obsolescence should be considered when determining the useful life of an asset and selecting an amortisation or depreciation method that reflects the pattern of consumption of the asset. However, she is concerned that the amendments will not fully resolve the practice issue that was originally raised with the IFRS Interpretations Committee. She believes that the amendments are not sufficiently clear regarding what evidence is required to overcome the presumption and instead support the use of revenue as the basis for amortisation of an intangible asset. She believes that further guidance should be included to explain when the pattern of consumption of economic benefits is the same as the pattern in which revenue is generated.

HKAS 27 (2011)
Revised September 2014 January 2017

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Accounting Standard 27 (2011)

Separate Financial Statements



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

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CONTENTS

	<i>from paragraph</i>
INTRODUCTION	IN1
HONG KONG ACCOUNTING STANDARD 27 SEPARATE FINANCIAL STATEMENTS	
OBJECTIVE	1
SCOPE	2
DEFINITIONS	4
PREPARATION OF SEPARATE FINANCIAL STATEMENTS	9
DISCLOSURE	15
EFFECTIVE DATE AND TRANSITION	18
References to HKFRS 9	19
WITHDRAWAL OF HKAS 27 (Revised)	20
APPENDIX	
Comparison with International Financial Reporting Standards	
BASIS FOR CONCLUSIONS	
DISSENTING OPINIONS	
TABLE OF CONCORDANCE	

Hong Kong Accounting Standard 27 *Separate Financial Statements* (HKAS 27) is set out in paragraphs 1-20. All the paragraphs have equal authority. HKAS 27 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.

Introduction

- IN1 HKAS 27 *Separate Financial Statements* contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments either at cost, or in accordance with HKFRS 9 *Financial Instruments*, or using the equity method.
- IN2 ~~The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. [Deleted]~~
- IN3 *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in December 2012, introduced an exception to the principle in HKFRS 10 *Consolidated Financial Statements* that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with HKFRS 9 (or HKAS 39 *Financial Instruments: Recognition and Measurement*, if HKFRS 9 has not yet been adopted) instead of consolidating those subsidiaries in its consolidated and separate financial statements. Consequently, the amendments also introduced new disclosure requirements for investment entities in HKFRS 12 *Disclosure of Interests in Other Entities*, with related disclosures introduced in this HKFRS.

Hong Kong Accounting Standard 27

Separate Financial Statements

Objective

- 1 The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Scope

- 2 **This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.**
- 3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Hong Kong Financial Reporting Standards.

Definitions

- 4 The following terms are used in this Standard with the meanings specified:

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Separate financial statements are those presented by ~~a parent (ie an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, an entity in which the entity could elect, subject to the requirements in this Standard, to account for its investments are accounted for in subsidiaries, joint ventures and associates either at cost, or in accordance with HKFRS 9 *Financial Instruments*, or using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.~~

- 5 The following terms are defined in Appendix A of HKFRS 10 *Consolidated Financial Statements*, Appendix A of HKFRS 11 *Joint Arrangements* and paragraph 3 of IAS 28 *Investments in Associates and Joint Ventures*:
- associate
 - control of an investee
 - equity method
 - group
 - investment entity
 - joint control
 - joint venture
 - joint venturer
 - parent
 - significant influence
 - subsidiary.

- 6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by HKAS 28 to be accounted for using the equity method, other than in the circumstances set out in paragraphs 8–8A. ~~Separate financial statements need not be appended to, or accompany, those statements.~~
- 7 ~~Financial statements in which the equity method is applied are not separate financial statements. Similarly, the~~ The financial statements of an entity that does not have a subsidiary, associate or joint venturer's interest in a joint venture are not separate financial statements.
- 8 An entity that is exempted in accordance with paragraph 4(a) of HKFRS 10 from consolidation or paragraph 17 of HKAS 28 (as amended in 2011) from applying the equity method may present separate financial statements as its only financial statements.
- 8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of HKFRS 10 presents separate financial statements as its only financial statements.

Preparation of separate financial statements

- 9 **Separate financial statements shall be prepared in accordance with all applicable HKFRSs, except as provided in paragraph 10.**
- 10 **When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:**
- (a) ~~at cost, or;~~
 - (b) ~~in accordance with HKFRS 9; or~~
 - (c) **using the equity method as described in HKAS 28.**

The entity shall apply the same accounting for each category of investments. Investments accounted for at cost or using the equity method shall be accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale or for distribution (or included in a disposal group that is classified as held for sale or for distribution). The measurement of investments accounted for in accordance with HKFRS 9 is not changed in such circumstances.

- 11 If an entity elects, in accordance with paragraph 18 of HKAS 28 (as amended in 2011), to measure its investments in associates or joint ventures at fair value through profit or loss in accordance with HKFRS 9, it shall also account for those investments in the same way in its separate financial statements.
- 11A If a parent is required, in accordance with paragraph 31 of HKFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with HKFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

- 11B When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:
- (a) when an entity ceases to be an investment entity, the entity shall account for an investment in a subsidiary, in accordance with paragraph 10, ~~either~~. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 10.
- (i) ~~account for an investment in a subsidiary at cost or using the equity method as described in HKAS 28. The fair value of the subsidiary at the date of the change of status shall be used as the deemed cost at that date; or [deleted]~~
- (ii) ~~continue to account for an investment in a subsidiary in accordance with HKFRS 9. [deleted]~~
- (b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with HKFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss. The cumulative amount of any ~~fair value adjustment~~ gain or loss previously recognised in other comprehensive income in respect of those subsidiaries shall be treated as if the investment entity had disposed of those subsidiaries at the date of change in status.
- 12 ~~An entity shall recognise a dividend~~ **Dividends from a subsidiary, a joint venture or an associate are recognised in profit or loss in its the separate financial statements of an entity when it's the entity's right to receive the dividend is established. The dividend is recognised in profit or loss unless the entity elects to use the equity method, in which case the dividend is recognised as a reduction from the carrying amount of the investment.**
- 13 When a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies the following criteria:
- (a) the new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent;
- (b) the assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
- (c) the owners of the original parent before the reorganisation have the same absolute and relative interests in the net assets of the original group and the new group immediately before and after the reorganisation,
- and the new parent accounts for its investment in the original parent in accordance with paragraph 10(a) in its separate financial statements, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation.
- 14 Similarly, an entity that is not a parent might establish a new entity as its parent in a manner that satisfies the criteria in paragraph 13. The requirements in paragraph 13 apply equally to such reorganisations. In such cases, references to 'original parent' and 'original group' are to the 'original entity'.

Disclosure

- 15** An entity shall apply all applicable HKFRSs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16_ and-17.
- 16** When a parent, in accordance with paragraph 4(a) of HKFRS 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

18G If measuring the investment in the subsidiary in accordance with paragraphs 18C–18F is impracticable (as defined in HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), an investment entity shall apply the requirements of this HKFRS at the beginning of the earliest period for which application of paragraphs 18C–18F is practicable, which may be the current period. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that it is practicable for the investment entity to measure the fair value of the subsidiary is earlier than the beginning of the immediately preceding period, the investor shall adjust equity at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the investment; and
- (b) the fair value of the investor's investment in the subsidiary.

If the earliest period for which application of this paragraph is practicable is the current period, the adjustment to equity shall be recognised at the beginning of the current period.

18H If an investment entity has disposed of, or lost control of, an investment in a subsidiary before the date of initial application of the *Investment Entities* amendments, the investment entity is not required to make adjustments to the previous accounting for that investment.

18I Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs 18C–18G, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs 18C–18G shall be read as the 'earliest adjusted comparative period presented'. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

18J *Equity Method in Separate Financial Statements (Amendments to HKAS 27)*, issued in September 2014, amended paragraphs 4–7, 10, 11B and 12. An entity shall apply those amendments for annual periods beginning on or after 1 January 2016 retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

References to HKFRS 9

19 If an entity applies this Standard but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of HKAS 27 (Revised)

20 This Standard is issued concurrently with HKFRS 10. Together, the two HKFRSs supersede HKAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008).

Consolidation exemption available for non-public entities

- BC7 The Board decided that a parent that meets the criteria in paragraph 4(a) of IFRS 10 for exemption from the requirement to prepare consolidated financial statements should, in its separate financial statements, account for those subsidiaries in the same way as other parents, joint venturers with interests in joint ventures or investors in associates account for investments in their separate financial statements. The Board draws a distinction between accounting for such investments as equity investments and accounting for the economic entity that the parent controls. In relation to the former, the Board decided that each category of investment should be accounted for consistently.
- BC8 The Board decided that the same approach to accounting for investments in separate financial statements should apply irrespective of the circumstances for which they are prepared. Thus, a parent that presents consolidated financial statements, and a parent that does not because it is exempted, should present the same form of separate financial statements.

Investment entities

- BC8A *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle in IFRS 10 that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been adopted) instead of consolidating those subsidiaries. Consequently, the Board decided to amend IAS 27 to require an investment entity to also measure its investments in subsidiaries at fair value through profit or loss in its separate financial statements. The Board also made corresponding amendments to the disclosure requirements for an investment entity's separate financial statements, noting that if an investment entity prepares separate financial statements as its only financial statements, it is still appropriate for the investment entity to make the disclosures otherwise required in IFRS 12 about its interests in subsidiaries.

Measurement of investments in subsidiaries, joint ventures and associates in separate financial statements (2003 revision and 2008 amendments)

2003 revision

- BC9 IAS 27 (as revised by the Board's predecessor body in 2000) permitted entities to measure investments in subsidiaries in any one of three ways in the parent's separate financial statements. These were at cost, using the equity method, or as available-for-sale financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 28 *Investments in Associates* permitted the same choices for investments in associates in separate financial statements, and IAS 31 *Interests in Joint Ventures* stated that IAS 31 did not indicate a preference for any particular treatment for accounting for interests in joint ventures in a joint venturer's separate financial statements. However, in 2003 the Board decided to require the use of cost or IAS 39 for all investments included in separate financial statements and to remove the equity method as one of the measurement options.

BC10 Although the equity method would provide users with some profit or loss information similar to that obtained from consolidation, the Board noted that such information is reflected in the investor's consolidated or individual financial statements and does not need to be provided to the users of its separate financial statements. For separate financial statements, the focus is upon the performance of the assets as investments. The Board concluded that separate financial statements prepared using either the fair value method in accordance with IAS 39* or the cost method would be relevant. Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments. Using the cost method can result in relevant information, depending on the purpose of preparing the separate financial statements. For example, they may be needed only by particular parties to determine the dividend income from subsidiaries.

**Equity method in separate financial statements
(amendments issued in 2014)**

BC10A In their responses to the Board's 2011 Agenda Consultation, some respondents said that:

- (a) the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations, and those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates; and
- (b) in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with local regulations.

BC10B Those respondents strongly supported the inclusion of the equity method as one of the options for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity. In May 2012, the Board decided to consider restoring the option to use the equity method in separate financial statements through a narrow-scope project. Consequently, the Board issued an Exposure Draft in December 2013, the proposals in which would facilitate convergence of local GAAP in those jurisdictions with IFRS for separate financial statements, and that would help to reduce compliance costs for some entities without the loss of information

Definition of separate financial statements

BC10C Some respondents to the Exposure Draft commented that the proposed amendments to paragraphs 4 and 6 of IAS 27 create an inconsistency in the definition of 'separate financial statements', especially for an investor that has investments in associates or joint ventures and no investments in subsidiaries. The financial statements of such an investor in which the investments in joint ventures and associates are accounted for using the equity method would be the investor's primary financial statements as well as its separate financial statements. Consequently, they assert that there could be confusion about the applicability of the disclosure requirements in IAS 27 and IFRS 12. IFRS 12 does not apply to an entity's separate financial statements.

* In May 2011 the Board issued IFRS 13 *Fair Value Measurement*, which contains requirements for measuring fair value.

BC10D The Board noted that the financial statements of an investor that has no investments in subsidiaries, and has investments in associates or joint ventures that are required by IAS 28 to be accounted for using the equity method, are not separate financial statements. Consequently, in those financial statements, such an investor is required to comply with the disclosure requirements in IFRS 12. As a logical consequence, such an investor is less likely to prepare separate financial statements in which investments in associates or joint ventures are accounted for using the equity method. If such an investor presents separate financial statements, the Board expects that the investor is likely to account for its investments in associates or joint ventures either at cost or in accordance with IFRS 9.

BC10E The Board also noted that an investor that is exempted in accordance with paragraph 17 of IAS 28 from applying the equity method to its investments in joint ventures and associates may elect to present separate financial statements in which the investor elects to account for those investments using the equity method. In those separate financial statements, the investor is not required to present the information required by IFRS 12 for its investments in joint ventures and associates (see paragraph 6(b) of IFRS 12).

Application of the equity method

BC10F IAS 28 contains guidance on the application of the equity method. IAS 28 notes that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 (see paragraph 26 of IAS 28).

BC10G In general, the application of the equity method to investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity is expected to result in the same net assets and profit or loss attributable to the owners as in the entity's consolidated financial statements. However, there could be situations in which applying the equity method in separate financial statements to investments in subsidiaries would give a different result compared to the consolidated financial statements. Some of those situations are:

- (a) impairment testing requirements in IAS 28. For an investment in a subsidiary accounted for in separate financial statements using the equity method, goodwill that forms part of the carrying amount of the investment in the subsidiary is not tested for impairment separately. Instead, the entire carrying amount of the investment in the subsidiary is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset. However, in the consolidated financial statements of the entity, because goodwill is recognised separately, it is tested for impairment by applying the requirements in IAS 36 for testing goodwill for impairment.
- (b) subsidiary that has a net liability position. IAS 28 requires an investor to discontinue recognising its share of further losses when its cumulative share of losses of the investee equals or exceeds its interest in the investee, unless the investor has incurred legal or constructive obligations or made payments on behalf of the investee, in which case a liability is recognised, whereas there is no such requirement in relation to the consolidated financial statements.
- (c) capitalisation of borrowing costs incurred by a parent in relation to the assets of a subsidiary. IAS 23 *Borrowing Costs* notes that, in some circumstances, it may be appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs. When a parent borrows funds and its subsidiary uses them for the purpose of obtaining a qualifying asset, in the consolidated financial statements of the parent the borrowing costs incurred by the parent are

considered to be directly attributable to the acquisition of the subsidiary's qualifying asset. However, this would not be appropriate in the separate financial statements of the parent if the parent's investment in the subsidiary is a financial asset, which is not a qualifying asset.

Some respondents to the Exposure Draft asked the Board to consider providing additional guidance to align the carrying amount of a subsidiary in the parent's separate financial statements with the net assets of the subsidiary that are attributable to the parent in the parent's consolidated financial statements. The Board concluded that creating any additional guidance within IAS 28 to eliminate such differences was outside the scope of this project. The Board was concerned that the development of such guidance would not be possible without adequate research and analysis, which would delay the amendments. Consequently, the Board decided not to consider these requests.

BC10H Some respondents to the Exposure Draft commented that IAS 28 should be amended to provide guidance on the application of the equity method to a subsidiary in the separate financial statements of the parent. The Board concluded that amending IAS 28 to provide such guidance was outside the scope of the project, and a parent that has elected to apply the equity method to account for its subsidiaries in its separate financial statements should follow the methodology in IAS 28 as applicable to an associate or a joint venture.

2008 amendments

- BC11 As part of its annual improvements project begun in 2007, the Board identified an apparent inconsistency with IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations*. The inconsistency related to the accounting by a parent in its separate financial statements when investments it accounts for in accordance with IAS 39 are classified as held for sale in accordance with IFRS 5. Paragraph 10 requires an entity that prepares separate financial statements to account for such investments that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 if they are measured at cost. However, financial assets that an entity accounts for in accordance with IAS 39 are excluded from IFRS 5's measurement requirements.
- BC12 Paragraph BC13 of the Basis for Conclusions on IFRS 5 explains that the Board decided that non-current assets should be excluded from the measurement scope of IFRS 5 only 'if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell.' The Board acknowledged in the Basis for Conclusions on IFRS 5 that not all financial assets within the scope of IAS 39 are recognised at fair value with changes in fair value recognised in profit or loss, but it did not want to make any further changes to the accounting for financial assets at that time.
- BC13 Therefore, the Board amended paragraph 10 by *Improvements to IFRSs* issued in May 2008 to align the accounting in separate financial statements for those investments that are accounted for in accordance with IAS 39 with the measurement exclusion that IFRS 5 provides for other assets that are accounted for in accordance with IAS 39 before classification as held for sale. Thus, an entity should continue to account for such investments in accordance with IAS 39 when they meet the held for sale criteria in IFRS 5.

Dividend received from a subsidiary, a joint venture or an associate

- BC14 Before *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* was issued in May 2008, IAS 27 described a 'cost method'. This required an entity to recognise distributions as income only if they came from post-acquisition retained

earnings. Distributions received in excess of such retained earnings were regarded as a recovery of investment and were recognised as a reduction in the cost of the investment. To apply that method retrospectively upon first-time adoption of IFRSs in its separate financial statements, an investor would need to know the subsidiary's pre-acquisition retained earnings in accordance with IFRSs.

- BC15 Restating pre-acquisition retained earnings would be a task tantamount to restating the business combination (for which IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides an exemption in Appendix C). It might involve subjective use of hindsight, which would diminish the relevance and reliability of the information. In some cases, the restatement would be time-consuming and difficult. In other cases, it would be impossible (because it would involve making judgements about the fair values of the assets and liabilities of a subsidiary at the acquisition date).
- BC16 Therefore, in *Cost of an Investment in a Subsidiary*, an exposure draft of proposed amendments to IFRS 1 (published in January 2007), the Board proposed to give first-time adopters an exemption from restating the retained earnings of the subsidiary at the date of acquisition for the purpose of applying the cost method.
- BC17 In considering the responses to that exposure draft, the Board observed that the principle underpinning the cost method is that a return of an investment should be deducted from the carrying amount of the investment. However, the wording in the previous version of IAS 27 created a problem in some jurisdictions because it made specific reference to retained earnings as the means of making that assessment. The Board decided that the best way to resolve this issue was to delete the definition of the cost method.
- BC18 In removing the definition of the cost method, the Board concluded that an investor should recognise a dividend from a subsidiary, a joint venture or an associate as income in its separate financial statements. Consequently, the requirement to separate the retained earnings of an entity into pre-acquisition and post-acquisition components as a method for assessing whether a dividend is a recovery of its associated investment has been removed from IFRSs.
- BC19 To reduce the risk that removing the definition of the cost method would lead to investments in subsidiaries, joint ventures and associates being overstated in the separate financial statements of the investor, the Board proposed that the related investment should be tested for impairment in accordance with IAS 36 ~~Impairment of Assets~~.
- BC20 The Board published its revised proposals in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, an exposure draft of proposed amendments to IFRS 1 and IAS 27, in December 2007. Respondents generally supported the proposed amendments to IAS 27, except for the proposal to require impairment testing of the related investment when an investor recognises a dividend. In the light of the comments received, the Board revised its proposal and identified specific indicators of impairment. This was done to narrow the circumstances in which impairment testing of the related investment would be required when an investor recognises a dividend (see paragraph 12(h) of IAS 36). The Board included the amendments in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* issued in May 2008.

Measurement of cost in the separate financial statements of a new parent

- BC21 In 2007 the Board received enquiries about the application of paragraph 10(a) when a parent reorganises the structure of its group by establishing a new entity as its parent. The new parent obtains control of the original parent by issuing equity instruments in exchange for existing equity instruments of the original parent.

BC32 Most respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of IAS 27 but only if an entity applies it in conjunction with the other IFRSs (ie IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as amended in 2011)) to avoid a lack of comparability among financial statements, and for the reasons noted in paragraph BC29 that triggered the Board's decision to set the same effective date for all five IFRSs. Even though an entity should apply the five IFRSs at the same time, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities.

Transition requirements (2014 amendments)

BC33 Some respondents to the Exposure Draft suggested that the Board should consider providing some form of relief to make the transition to accounting for investments in subsidiaries, joint ventures and associates using the equity method easier. However, the Board noted that an entity should be able to use the information that is used for consolidation of the subsidiary in its consolidated financial statements for applying the equity method to the investment in the subsidiary in its separate financial statements. Investments in associates and joint ventures (after applying the transition provisions of IFRS 11) are accounted for using the equity method in the consolidated financial statements, which means that an entity need not perform any additional procedures and can use the same information in its separate financial statements. The Board also noted that many entities would be able to draw on the information in the financial statements of its ultimate, or any intermediate, parent in order to calculate the carrying amount of its investment in a subsidiary, joint venture and associate on the initial application of these amendments. Furthermore, the application of the equity method in separate financial statements is optional and not mandatory. Consequently, the Board concluded that additional transition relief was not needed and that an entity that elects to use the equity method should be required to apply the amendments retrospectively in accordance with IAS 8.

HKAS 28 (2011)
Revised January 2016/2017

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

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CONTENTS

from paragraph

INTRODUCTION	IN1
HONG KONG ACCOUNTING STANDARD 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	
OBJECTIVE	1
SCOPE	2
DEFINITIONS	3
SIGNIFICANT INFLUENCE	5
EQUITY METHOD	10
APPLICATION OF THE EQUITY METHOD	16
Exemptions from applying the equity method	17
Classification as held for sale	20
Discontinuing the use of the equity method	22
Changes in ownership interest	25
Equity method procedures	26
Impairment losses	40
SEPARATE FINANCIAL STATEMENTS	44
EFFECTIVE DATE AND TRANSITION	45
References to HKFRS 9	46
WITHDRAWAL OF HKAS 28 (2004)	47
APPENDIX	
COMPARISON WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS	
AMENDMENTS TO HKFRS 10 AND HKAS 28 SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE	
BASIS FOR CONCLUSIONS	
DISSENTING OPINION	
TABLE OF CONCORDANCE	

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.

Introduction

- IN1 Hong Kong Accounting Standard 28 *Investments in Associates and Joint Ventures* (HKAS 28) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- IN2 The Standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Main features of the Standard

- IN3 HKAS 28 (as amended in 2011) is to be applied by all entities that are investors with joint control of, or significant influence over, an investee.
- IN4 The Standard defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
- IN5 HKFRS 11 *Joint Arrangements* establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- IN6 An entity applies HKFRS 11 to determine the type of joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method in accordance with HKAS 28 (as amended in 2011), unless the entity is exempted from applying the equity method as specified in the Standard.

Equity method

- IN7 The Standard defines the equity method as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes its share of the profit or loss of the investee and the other comprehensive income of the investor includes its share of other comprehensive income of the investee.
- IN8 An entity uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements. An entity that does not have any subsidiaries also uses the equity method to account for its investments in associates or joint ventures in its financial statements even though those are not described as consolidated financial statements. ~~The only financial statements to which an entity does not apply~~ An entity could elect to use the equity method are in its separate financial statements that it presents in accordance with HKAS 27 *Separate Financial Statements*.

- 14 HKFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture, the instruments are not subject to HKFRS 9. In all other cases, instruments containing potential voting rights in an associate or a joint venture are accounted for in accordance with HKFRS 9.
- 15 Unless an investment, or a portion of an investment, in an associate or a joint venture is classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset.

Application of the equity method

- 16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.

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 or International Financial Reporting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with HKFRS 10 or IFRS 10.
- 18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with HKFRS 9.

- 23 Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or a joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.
- 24 **If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.**

Changes in ownership interest

- 25 ~~If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method investment continues to be classified either as an associate or a joint venture respectively,~~ the entity shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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 and ~~36~~ 36A).
- 28 Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.
- 29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

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, 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.

37 If an associate or a joint venture has outstanding cumulative preference shares that are held by parties other than the entity and are classified as equity, the entity computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.

38 If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate or a joint venture in the reverse order of their seniority (ie priority in liquidation).

39 After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses

40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies HKAS 39 *Financial Instruments: Recognition and Measurement* to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture.

41 The entity also applies HKAS 39 to determine whether any additional impairment loss is recognised with respect to its interest in the associate or joint venture that does not constitute part of the net investment and the amount of that impairment loss.

- 42 Because goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in HKAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of HKAS 39 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
 - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

- 43 The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate financial statements

- 44 An investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of HKAS 27 (as amended in 2011).

Effective date and transition

- 45 An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard earlier, it shall disclose that fact and apply HKFRS 10, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 27 (as amended in 2011) at the same time.

45A *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

45B *Equity Method in Separate Financial Statements (Amendments to HKAS 27)*, issued in September 2014, amended paragraph 25. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016 retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.

45C *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*

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.

References to HKFRS 9

46 If an entity applies this Standard but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39.

Withdrawal of HKAS 28 (2004)

47 This Standard supersedes HKAS 28 *Investments in Associates* (issued in 2004)

CONTENTS

from paragraph

BASIS FOR CONCLUSIONS ON IAS 28	
<i>INVESTMENTS IN ASSOCIATES AND JOINT VENTURES</i>	
INTRODUCTION	BC1
The structure of IAS 28 and the Board’s deliberations	BC4
SCOPE	BC10
SIGNIFICANT INFLUENCE	BC15
Potential voting rights	BC15
APPLICATION OF THE EQUITY METHOD	BC17
Temporary joint control and significant influence (2003 revision)	BC17
Severe long-term restrictions impairing ability to transfer funds to the investor (2003 revision)	BC18
Non-coterminous year-ends (2003 revision)	BC19
Exemptions from applying the equity method: partial use of fair value measurement of associates	BC20
Classification as held for sale	BC23
Discontinuing the use of the equity method	BC28
Incorporation of SIC-13	BC32
Recognition of losses (2003 revision)	BC38
Impairment losses (2008 amendment)	BC42
EFFECTIVE DATE AND TRANSITION	BC47
GENERAL	BC51
Withdrawal of IAS 28 (2003 revision)	BC51
Disclosure	BC52
Summary of main changes from IAS 28 (2003 revision)	BC56
DISSENTING OPINION ON AMENDMENT ISSUED IN MAY 2008	DO1
TABLE OF CONCORDANCE	
AMENDMENTS TO BASIS FOR CONCLUSIONS ON IFRS 10 AND IAS 28 SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE	

- BC6 The Board has incorporated into its Basis for Conclusions on IAS 28 (as amended in 2011) material from the previous Basis for Conclusions because it discusses matters that the Board has not reconsidered. That material is contained in paragraphs denoted by numbers with the prefix BCZ. In those paragraphs cross-references have been updated accordingly and minor necessary editorial changes have been made.
- BC7 One Board member dissented from an amendment to IAS 28 issued in May 2008, which has been carried forward to IAS 28 (as amended in 2011). His dissenting opinion is also set out after this Basis for Conclusions.
- BC8 The requirements in paragraphs 2, 16–21, 24 and 29–31 relate to matters addressed within the joint ventures project that led to amendments to IAS 28. Paragraphs describing the Board's considerations in reaching its conclusions on IAS 28 are numbered with the prefix BC.
- BC9 As part of its project on consolidation, the Board is examining how an investment entity accounts for its interests in subsidiaries, joint ventures and associates. The outcome might affect how organisations such as venture capital organisations, or mutual funds, unit trusts and similar entities account for their interests in joint ventures and associates. The Board expects to publish later in 2011 an exposure draft on investment entities.^{1, 2}

Scope

- BC10 During its redeliberation of the exposure draft ED 9 *Joint Arrangements*, the Board reconsidered the scope exception of IAS 31 that had also been proposed in ED 9. The Board concluded that the scope exception in ED 9 for interests in joint ventures held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* is more appropriately characterised as a measurement exemption, and not as a scope exception.
- BC11 The Board observed that IAS 28 had a similar scope exception for investments in associates held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that are measured at fair value through profit or loss in accordance with IFRS 9.
- BC12 The Board observed that the scope exception in ED 9 and IAS 28 related not to the fact that these arrangements do not have the characteristics of joint arrangements or those investments are not associates, but to the fact that for investments held by venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, fair value measurement provides more useful information for users of the financial statements than would application of the equity method.

¹ 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 *Consolidated Financial Statements*, to measure their investments in subsidiaries, other than those providing investment-related services or activities, at fair value through profit or loss. The amendments did not introduce any new accounting requirements for investments in associates or joint ventures.

² 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).

Non-coterminous year-ends (2003 revision)

BCZ19 The exposure draft that preceded the revision of IAS 28 in 2003 proposed to limit to three months any difference between the reporting dates of an entity and its associate or its joint venture when applying the equity method. Some respondents to that exposure draft believed that it could be impracticable for the entity to prepare financial statements as of the same date when the date of the entity's financial statements and those of the associate or joint venture differ by more than three months. The Board noted that a three-month limit operates in several jurisdictions and it was concerned that a longer period, such as six months, would lead to the recognition of stale information. Therefore, it decided to retain the three-month limit.

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.

Exemptions from applying the equity method: partial use of fair value measurement of associates

BC20 The Board received a request to clarify whether different measurement bases can be applied to portions of an investment in an associate when part of the investment is not accounted for using the equity method in accordance with paragraph 18 of IAS 28, but it is instead measured at fair value through profit or loss in accordance with IFRS 9. The Board initially deliberated this amendment to IAS 28 as part of the *Improvements to IFRSs* issued in April 2010; however, at its meeting in February 2010 the Board decided to address this issue within the joint ventures project.

BC21 The Board noted that two views exist with respect to measurement. The first view identifies all direct and indirect interests held in the associate either by the parent or through any of its subsidiaries, and then applies IAS 28 to the entire investment in the associate. In accordance with this view, there is only one investment in the associate and it should be accounted for as a single unit. The second view identifies all direct and indirect interests held in an associate, but then allows the use of the measurement exemption to portions of an investment in an associate if the portion is held by a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, regardless of whether those entities have significant influence over their portion of the investment in the associate. The Board agreed with the second view and therefore amended IAS 28. The Board decided that equivalent guidance on the partial use of fair value for the measurement of investments in joint ventures should not be provided because the Board thought that such events would be unlikely in practice.

BC22 The Board also discussed whether the partial use of fair value should be allowed only in the case of venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, that have designated their portion of the investment in the associate at fair value through profit or loss in their own financial statements. The Board noted that several situations might arise in which those entities do not measure their portion of the investment in the associate at fair value through profit or loss. In those situations, however, from the group's perspective, the appropriate determination of the business purpose would lead to the measurement of this portion of the investment in the associate at fair value through

profit or loss in the consolidated financial statements. Consequently, the Board decided that an entity should be able to measure a portion of an investment in an associate held by a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, at fair value through profit or loss regardless of whether this portion of the investment is measured at fair value through profit or loss in those entities' financial statements.

Classification as held for sale

- BC23 ED 9 proposed that an entity should account for an interest in a joint venture that is classified as held for sale in accordance with IFRS 5.
- BC24 During its redeliberation of ED 9 the Board noted that the exposure draft *Improvements to IFRSs* published in August 2009 had proposed to amend IFRS 5 so as to require an entity to classify as held for sale its interest in an associate, or in a jointly controlled entity, when it is committed to a sale plan involving loss of significant influence or loss of joint control. Those proposals aimed to clarify that all the interest ('the whole interest') an entity had in an associate or a joint venture had to be classified as held for sale if the entity was committed to a sale plan involving loss of, significant influence over, or joint control of that interest.
- BC25 The Board observed that those proposals were not aligned with the decisions made during the Board's redeliberation of ED 9 to remove all descriptions that associated the loss of joint control and the loss of significant influence with the term 'significant economic event' as introduced in the second phase of the Board's project on business combinations (see paragraphs BC28–BC31).
- BC26 The Board decided that classifying an interest as held for sale should be on the basis of whether the intended disposal meets the criteria for classification as held for sale in accordance with IFRS 5, rather than on whether the entity had lost joint control of, or significant influence over, that interest. As a result, the Board concluded that when the disposal of an interest, or a portion of an interest, in a joint venture or an associate fulfilled the criteria for classification as held for sale in accordance with IFRS 5, an entity should classify the whole interest, or a portion of the interest, as held for sale.
- BC27 The Board decided that, in the case of a partial disposal, an entity should maintain the use of the equity method for the retained interest in the joint venture or associate until the portion classified as held for sale is finally disposed of. The Board reasoned that even if the entity has the intention of selling a portion of an interest in an associate or a joint venture, until it does so it still has significant influence over, or joint control of, that investee. After the disposal, an entity should measure the retained interest in the joint venture or associate in accordance with IFRS 9 or in accordance with IAS 28 if the entity still has significant influence over, or joint control of, the retained interest.

Discontinuing the use of the equity method

- BC28 During its redeliberation of ED 9, the Board reconsidered whether its decision in the second phase of the business combinations project to characterise loss of joint control or loss of significant influence as a significant economic event (ie in the same way that loss of control is characterised as a significant economic event) was appropriate. If it were, the Board thought that the entity should be required to recalibrate the accounting as required by IFRS 10. However, the Board concluded that, although significant, the events are fundamentally different. In the case of loss of control, the cessation of the parent-subsidiary relationship results in the derecognition of assets and liabilities because the composition of the group changes. If joint control or significant influence is lost the composition of the group is unaffected.

- BCZ44 Some respondents to the exposure draft expressed the view that the proposed amendment was not consistent with IAS 39 (regarding reversal of an impairment loss on an available-for-sale equity instrument), or with IAS 36 *Impairment of Assets* (regarding the allocation of an impairment loss to goodwill and any reversal of an impairment loss relating to goodwill).
- BCZ45 In its redeliberations, the Board affirmed its previous decisions but, in response to the comments made, decided to clarify the reasons for the amendments. The Board decided that an entity should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in the associate or joint venture because the investment is the only asset that the entity controls and recognises.
- BCZ46 The Board also decided that any reversal of this impairment loss should be recognised as an adjustment to the investment in the associate or joint venture to the extent that the recoverable amount of the investment increases. This requirement is consistent with IAS 36, which permits the reversal of impairment losses for assets other than goodwill. The Board did not propose to align the requirements for the reversal of an impairment loss with those in IAS 39 relating to equity instruments, because an entity recognises an impairment loss on an investment in an associate or joint venture in accordance with IAS 36, rather than in accordance with IAS 39.

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

BC47 The Board decided to align the effective date for the Standard with the effective date for IFRS 10, IFRS 11, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. 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 IAS 28 without also applying the other four IFRSs could cause unwarranted confusion.

BC48 The Board usually sets an effective date of between twelve and eighteen months after issuing an IFRS. When deciding the effective date for those IFRSs, the Board considered the following factors:

- (a) the time that many countries require for translation and for introducing the mandatory requirements into law.
- (b) the consolidation project was related to the global financial crisis that started in 2007 and was accelerated by the Board in response to urgent requests from the leaders of the G20, the Financial Stability Board, users of financial statements, regulators and others to improve the accounting and disclosure of an entity's 'off balance sheet' activities.
- (c) the comments received from respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 regarding implementation costs, effective date and transition requirements of the IFRSs to be issued in 2011. Most respondents did not identify the consolidation and joint arrangements IFRSs as having a high impact in terms of the time and resources that their implementation would require. In addition, only a few respondents commented that the effective dates of those IFRSs should be aligned with those of the other IFRSs to be issued in 2011.

BC49 With those factors in mind, the Board decided to require entities to apply the five IFRSs for annual periods beginning on or after 1 January 2013.

BC50 Most respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of IAS 28 but only if an entity applies it in conjunction with the other IFRSs (ie IFRS 10, IFRS 11, IFRS 12 and IAS 27 (as amended in 2011)) to avoid a lack of comparability among financial statements, and for the reasons noted in paragraph BC47 that triggered the Board's decision to set the same effective date for all five IFRSs. Even though an entity should apply the five IFRSs at the same time, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities.

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*.

General

Withdrawal of IAS 28 (2003 revision)

BC51 IAS 28 *Investments in Associates and Joint Ventures* replaces IAS 28 *Investments in Associates* (as revised in 2003 and amended in 2010). IAS 28 (as amended in 2011) incorporates the accounting for joint ventures and includes some amendments discussed by the Board during its redeliberation of the exposure draft ED 9.

Disclosure

BC52 IAS 28 does not address the disclosure requirements for entities with joint control of, or significant influence over, an investee. As part of its redeliberation of ED 9 and ED 10 *Consolidated Financial Statements*, the Board identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities, and to present those requirements in a single IFRS.

- BC53 The Board observed that IAS 27, IAS 28 and IAS 31 contained many similar disclosure requirements. ED 9 had already proposed amendments to the disclosure requirements for joint ventures and associates to align the disclosure requirements for those two types of investments more closely. The Board noted that the majority of respondents agreed with the proposals in ED 9 to align the disclosures for joint ventures with the disclosures in IAS 28 for associates.
- BC54 As a result, the Board combined the disclosure requirements for interest with subsidiaries, joint arrangements, associates and unconsolidated structured entities within a single comprehensive standard, IFRS 12.
- BC55 The Basis for Conclusions accompanying IFRS 12 summarises the Board's considerations in developing that IFRS, including its review of responses to the disclosure proposals in ED 9. Accordingly, IAS 28 does not include disclosure requirements and this Basis for Conclusions does not incorporate the Board's considerations of responses to the proposed disclosure requirements in ED 9.

HKFRS 1 (Revised)
Revised December 2016 January 2017

Effective for annual periods
beginning on or after 1 July 2009

Hong Kong Financial Reporting Standards 1 (Revised)

First-time Adoption of Hong Kong Financial Reporting Standards



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Certified Public Accountants
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- 39S *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraph D31. An entity shall apply that amendment when it applies HKFRS 11 (as amended in July 2012).
- 39T *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.
- 39U *[Deleted.]*
- 39V HKFRS 14 *Regulatory Deferral Accounts*, issued in February 2014, amended paragraph D8B. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies HKFRS 14 for an earlier period, the amendment shall be applied for that earlier period.
- 39W *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to HKFRS 11), issued in June 2014, amended paragraph C5. An entity shall apply that amendment in annual periods beginning on or after 1 January 2016. If an entity applies related amendments to HKFRS 11 from *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to HKFRS 11) in an earlier period, the amendment to paragraph C5 shall be applied in that earlier period.
- 39X-ZY *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*
- 39Z *Equity Method in Separate Financial Statements* (Amendments to HKAS 27), issued in September 2014, amended paragraph D14 and added paragraph D15A. 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.
- 39AA *Annual Improvements to HKFRSs 2012–2014 Cycle*, issued in October 2014, added paragraph E4A. 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.

Withdrawal of HKFRS 1 (issued 2003)

- 40 This HKFRS supersedes HKFRS 1 (issued in 2003 and amended at December 2008).

D8A Under some other accounting requirements exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to HKFRSs on the following basis:

- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- (b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to HKFRSs in accordance with HKFRS 6 *Exploration for and Evaluation of Mineral Resources* or HKAS 36 respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

D8B Some entities hold items of property, plant and equipment or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with HKFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to HKFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to HKFRSs, an entity shall test for impairment in accordance with HKAS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they are governed by a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator (as defined in HKFRS 14 *Regulatory Deferral Accounts*) provide goods or services to customers at prices (ie rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return. The specified return could be a minimum or range and need not be a fixed or guaranteed return.

Leases

D9 A first-time adopter may apply the transitional provisions in HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to HKFRSs contains a lease on the basis of facts and circumstances existing at that date.

D9A If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by HK(IFRIC)-Int 4 but at a date other than that required by HK(IFRIC)-Int 4, the first-time adopter need not reassess that determination when it adopts HKFRSs. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying HKAS 17 *Leases* and HK(IFRIC)-Int 4.

D10 [Deleted]

D11 [Deleted]

Cumulative translation differences

D12 HKAS 21 requires an entity:

- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
- (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.

D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to HKFRSs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to HKFRSs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to HKFRSs and shall include later translation differences.

Investments in subsidiaries, joint ventures and associates

D14 When an entity prepares separate financial statements, HKAS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:

- (a) at cost; or
- (b) in accordance with ~~HKAS 39~~ HKFRS 9; or
- (c) using the equity method as described in HKAS 28.

D15 If a first-time adopter measures such an investment at cost in accordance with HKAS 27, it shall measure that investment at one of the following amounts in its separate opening HKFRS statement of financial position:

- (a) cost determined in accordance with HKAS 27; or
- (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value (determined in accordance with HKAS 39) at the entity's date of transition to HKFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.

D15A If a first-time adopter accounts for such an investment using the equity method procedures as described in HKAS 28:

- (a) the first-time adopter applies the exemption for past business combinations (Appendix C) to the acquisition of the investment.
- (b) if the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and
 - (i) later than its parent, the entity shall apply paragraph D16 in its separate financial statements.
 - (ii) later than its subsidiary, the entity shall apply paragraph D17 in its separate financial statements.

HKFRS 10
Revised January ~~2016~~2017

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 10

Consolidated Financial Statements



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C Effective date and transition

D Amendments to other HKFRSs

E Comparison with International Financial Reporting Standards

GF Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

BASIS FOR CONCLUSIONS (*see separate booklet*)

APPENDICES

Amendments to Basis for Conclusions on other IFRSs

ILLUSTRATIVE EXAMPLES

AMENDMENTS TO THE GUIDANCE ON OTHER IFRSs

(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, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this HKFRS or IFRS 10.

(b) [deleted]

(c) [deleted]

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

4B 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.

Control

5 An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

6 An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

7 Thus, an investor controls an investee if and only if the investor has all the following:

(a) power over the investee (see paragraphs 10–14);

(b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and

(c) the ability to use its power over the investee to affect the amount of the investor's returns (see paragraphs 17 and 18).

8 An investor shall consider all facts and circumstances when assessing whether it controls an investee. The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7 (see paragraphs B80–B85).

9 Two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee. Each investor would account for its interest in the investee in accordance with the relevant HKFRSs, such as HKFRS 11 *Joint Arrangements*, HKAS 28 *Investments in Associates and Joint Ventures* or HKFRS 9 *Financial Instruments*.

Power

- 10 An investor has power over an investee when the investor has existing rights that give it the current ability to direct the *relevant activities*, ie the activities that significantly affect the investee's returns.
- 11 Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

- (c) it has investors that are not related parties of the entity (see paragraphs B85T–B85U); and
- (d) it has ownership interests in the form of equity or similar interests (see paragraphs B85V–B85W).

The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity. An investment entity that does not have all of these typical characteristics provides additional disclosure required by paragraph 9A of HKFRS 12 *Disclosure of Interests in Other Entities*.

- 29 If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, as described in paragraph 27, or the typical characteristics of an investment entity, as described in paragraph 28, a parent shall reassess whether it is an investment entity.
- 30 A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs B100–B101).

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 9.²**
- 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.

² Paragraph C7 of HKFRS 10 *Consolidated Financial Statements* states “If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference in this HKFRS to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.”

- B82 An event can cause an investor to gain or lose power over an investee without the investor being involved in that event. For example, an investor can gain power over an investee because decision-making rights held by another party or parties that previously prevented the investor from controlling an investee have lapsed.
- B83 An investor also considers changes affecting its exposure, or rights, to variable returns from its involvement with an investee. For example, an investor that has power over an investee can lose control of an investee if the investor ceases to be entitled to receive returns or to be exposed to obligations, because the investor would fail to satisfy paragraph 7(b) (eg if a contract to receive performance-related fees is terminated).
- B84 An investor shall consider whether its assessment that it acts as an agent or a principal has changed. Changes in the overall relationship between the investor and other parties can mean that an investor no longer acts as an agent, even though it has previously acted as an agent, and vice versa. For example, if changes to the rights of the investor, or of other parties, occur, the investor shall reconsider its status as a principal or an agent.
- B85 An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (eg a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed in paragraph 7 or changes the overall relationship between a principal and an agent.

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 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.

Exit strategies

B85F An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.

B85G Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.

B85H An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Earnings from investments

B85I An entity is not investing solely for capital appreciation, investment income, or both, if the entity or another member of the group containing the entity (ie the group that is controlled by the investment entity's ultimate parent) obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include:

Appendix C

Effective date and transition

This appendix is an integral part of the HKFRS and has the same authority as the other parts of the HKFRS.

Effective date

- C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this HKFRS earlier, it shall disclose that fact and apply HKFRS 11, HKFRS 12, HKAS 27 *Separate Financial Statements* and HKAS 28 (as amended in 2011) at the same time.
- C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraphs C2–C6 and added paragraphs C2A–C2B, C4A–C4C, C5A and C6A–C6B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 10 for an earlier period, it shall apply those amendments for that earlier period.
- C1B *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraphs 2, 4, C2A, C6A and Appendix A and added paragraphs 27–33, B85A–B85W, B100–B101 and C3A–C3F. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- C1C *[This paragraph refers to amendments that are not yet effective, and is therefore not included in this edition.]*
- 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

- C2 An entity shall apply this HKFRS retrospectively, in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs C2A–C6.
- 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.
- C2B For the purposes of this HKFRS, the date of initial application is the beginning of the annual reporting period for which this HKFRS is applied for the first time.
- C3 At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

- (a) entities that would be consolidated at that date in accordance with HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation—Special Purpose Entities* and are still consolidated in accordance with this HKFRS; or
- (b) entities that would not be consolidated at that date in accordance with HKAS 27 and HK(SIC)-Int 12 and are not consolidated in accordance with this HKFRS.
- C3A At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs C3B–C3F instead of paragraphs C5–C5A.
- C3B Except for any subsidiary that is consolidated in accordance with paragraph 32 (to which paragraphs C3 and C6 or paragraphs C4–C4C, whichever is relevant, apply), an investment entity shall measure its investment in each subsidiary at fair value through profit or loss as if the requirements of this HKFRS had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and equity at the beginning of the immediately preceding period for any difference between:
- (a) the previous carrying amount of the subsidiary; and
- (b) the fair value of the investment entity’s investment in the subsidiary.
- The cumulative amount of any fair value adjustments previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.
- C3C Before the date that HKFRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts that were previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm’s length transaction at the date of the valuation.
- C3D If measuring an investment in a subsidiary in accordance with paragraphs C3B–C3C is impracticable (as defined in HKAS 8), an investment entity shall apply the requirements of this HKFRS at the beginning of the earliest period for which application of paragraphs C3B–C3C is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to equity shall be recognised at the beginning of the current period.
- C3E If an investment entity has disposed of, or has lost control of, an investment in a subsidiary before the date of initial application of this HKFRS, the investment entity is not required to make adjustments to the previous accounting for that subsidiary.
- C3F If an entity applies the *Investment Entities* amendments for a period later than when it applies HKFRS 10 for the first time, references to ‘the date of initial application’ in paragraphs C3A–C3E shall be read as ‘the beginning of the annual reporting period for which the amendments in *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in December 2012, are applied for the first time.’
- C4 If, at the date of initial application, an investor concludes that it shall consolidate an investee that was not consolidated in accordance with HKAS 27 and (HK)SIC-Int 12, the investor shall:

Appendix D

Amendments to other HKFRSs

This appendix sets out the amendments to other HKFRSs that are a consequence of issuing this HKFRS. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies this HKFRS for an earlier period, it shall apply these amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

Appendix E

Comparison with International Financial Reporting Standards

This comparison appendix, which was prepared in June 2011 and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKFRS 10.

The International Financial Reporting Standard comparable with HKFRS 10 is IFRS 10 *Consolidated Financial Statements*.

There are no major textual differences between HKFRS 10 and IFRS 10.

Appendix GE

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 10 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 25–26 are amended. Deleted text is struck through and new text is underlined.

Loss of control

- 25 If a parent loses control of a subsidiary, the parent:
- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.
 - (b) recognises any investment retained in the former subsidiary ~~at its fair value when control is lost~~ and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant HKFRSs. That fair value retained interest is remeasured, as described in paragraphs B98(b)(iii) and B99A. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with HKFRS 9 or the cost on initial recognition of an investment in an associate or joint venture, if applicable.
 - (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs B98–B99A.
- 26 Paragraphs B97–B99A set out guidance for the accounting for the loss of control of a subsidiary.

In Appendix B, paragraph B99A is added. New text is underlined.

Loss of control

...

- B99A If a parent loses control of a subsidiary that does not contain a business, as defined in HKFRS 3, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the parent determines the gain or loss in accordance with paragraphs B98–B99. The gain or loss resulting from the transaction (including the amounts previously recognised in other comprehensive income that would be reclassified to profit or loss in accordance with paragraph B99) is recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the parent retains an investment in the former subsidiary and the former subsidiary is now an associate or a joint venture that is accounted for using the equity method, the parent recognises the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former subsidiary. If the parent retains an investment in the former subsidiary that is now accounted for in accordance with HKFRS 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.

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*

Consolidated Financial Statements



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Certified Public Accountants
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Consolidation procedures	BC154
Non-controlling interests (2003 revision and 2008 amendments)	BCZ155
Attribution of losses (2008 amendments)	BCZ160
Changes in ownership interests in subsidiaries (2008 amendments)	BCZ168
Loss of control (2008 amendments)	BCZ180
EFFECTIVE DATE AND TRANSITION	BC191
Effective date	BC191
Transition	BC195
Transitional provisions (2008 amendments)	BCZ200
WITHDRAWAL OF IAS 27 AND SIC-12	BC204
SUMMARY OF MAIN CHANGES FROM ED 10	BC206
COST-BENEFIT CONSIDERATIONS	BC207
EXCEPTION TO CONSOLIDATION FOR INVESTMENT ENTITIES (2012 AMENDMENTS)	BC215
Background	BC215
Scope of the project	BC222
Approach to assessing investment entity status	BC228
Definition of an investment entity	BC236
Typical characteristics of investment entities	BC255
Reassessment and change of status	BC268
Parent of an investment entity	BC272
Transition	BC284
Effective date and early application	BC288
Joint deliberations with the FASB	BC289
EFFECTS ANALYSIS FOR INVESTMENT ENTITIES	BC292
Financial statements of investment entities	BC294
Comparability	BC301
Usefulness of financial statements in assessing the future cash flows of an entity	BC303
Better economic decision-making	BC304
Effect on compliance costs for preparers	BC309
How the costs of analysis for users are affected	BC313
Summary	BC317
APPENDICES	
Dissenting opinions	
Amendments to Basis for Conclusions on other IFRSs	
Amendments to Basis for Conclusions on IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	
ILLUSTRATIVE EXAMPLES	
AMENDMENTS TO GUIDANCE ON OTHER IFRSs	

BCZ22 – BCZ28 [Deleted]

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.

Control as the basis for consolidation

BC29 The Board's objective in issuing IFRS 10 is to improve the usefulness of consolidated financial statements by developing a single basis for consolidation and robust guidance for applying that basis to situations where it has proved difficult to assess control in practice and divergence has evolved (see paragraphs BC2–BC4). The basis for consolidation is control and it is applied irrespective of the nature of the investee.

BC30 Almost all respondents to ED 10 supported control as the basis for consolidation. However, some noted that it can be difficult to identify an investor that has power over investees that do not require substantive continuous decision-making. They suggested that exposure to risks and rewards should be used as a proxy for control when power is not evident. Some respondents were also concerned that applying the proposed control definition to all investees could lead to more structuring opportunities than was the case when applying the requirements in IAS 27 and SIC-12. Others did not think that ED 10 expressed with sufficient clarity the importance of risks and rewards when assessing control.

Effective date and transition

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.
- BC192 The Board usually sets an effective date of between twelve and eighteen months after issuing an IFRS. When deciding the effective date for those IFRSs, the Board considered the following factors:
- (a) the time that many countries require for translation and for introducing the mandatory requirements into law.
 - (b) the consolidation project was related to the global financial crisis that started in 2007 and was accelerated by the Board in response to urgent requests from the leaders of the G20, the Financial Stability Board, users of financial statements, regulators and others to improve the accounting and disclosure of an entity's 'off balance sheet' activities.
 - (c) the comments received from respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 regarding implementation costs, effective date and transition requirements of the IFRSs to be issued in 2011. Most respondents did not identify the consolidation and joint arrangements IFRSs as having a high impact in terms of the time and resources that their implementation would require. In addition, only a few respondents commented that the effective dates of those IFRSs should be aligned with those of the other IFRSs to be issued in 2011.
- BC193 With these factors in mind, the Board decided to require entities to apply the five IFRSs for annual periods beginning on or after 1 January 2013.
- BC194 The majority of the respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of IFRS 10 but only if an entity applies it in conjunction with the other IFRSs (ie IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011)) to avoid a lack of comparability among financial statements, and for the reasons noted in paragraph BC191 that triggered the Board's decision to set the same effective date for all five IFRSs. Even though an entity should apply the five IFRSs at the same time, the Board noted that an entity should not be prevented from applying any of the disclosure requirements of IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities.

investments under the control of venture capital organisations, private equity entities and similar organisations, users' information needs are best served by financial statements in which those investments are consolidated, thus revealing the extent of the operations of the entities they control.

- BC217 The scope of the proposals in ED 10 was the same as the scope of the proposals in IAS 27. IAS 27 required reporting entities to consolidate all controlled entities, regardless of the nature of the reporting entity. Respondents to ED 10 questioned the usefulness of financial statements of investment entities that consolidate investees that the investment entity controls. They pointed out that some national accounting requirements, including United States Generally Accepted Accounting Principles (US GAAP), have historically provided industry-specific guidance that requires investment entities to measure all of their investments, including those that they control, at fair value. The respondents argued that an investment entity holds investments for the sole purpose of capital appreciation, investment income (such as dividends or interest), or both. Users of the financial statements of these investment entities told the Board that the fair value of the investments and an understanding of how the investment entity measures the fair value of its investments is the most useful information.
- BC218 Furthermore, respondents to ED 10 argued that consolidated financial statements of an investment entity may hinder users' ability to assess an investment entity's financial position and results, because it emphasizes the financial position, operations and cash flows of the investee, rather than those of the investment entity. Often, an investment entity holds non-controlling interests in some entities that are reported at fair value, as well as controlling interests in other entities that are consolidated in accordance with current principles in IFRSs. Reporting investments on more than one basis hinders comparability within the financial statements, because all investments are held by an investment entity for a similar purpose—returns from capital appreciation, investment income, or both. In addition, some of the items consolidated may be measured at historical cost, which distorts the performance assessment of the investment entity and does not reflect the way in which the business of the entity is managed.
- 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.
- BC220 In response to this feedback, the Board published an Exposure Draft *Investment Entities (Investment Entities ED)* in August 2011. The *Investment Entities ED* proposed that investment entities would be required to measure their investments in subsidiaries (except those subsidiaries that provide investment-related services) at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* (or IAS 39, if IFRS 9 has not yet been adopted)*. The majority of respondents to the *Investment Entities ED* broadly supported the proposed exception to consolidation for the reasons outlined in paragraphs BC217–BC219.

* 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).

BC221 The Board conducted its deliberations leading to the publication of the *Investment Entities* ED and the final investment entities requirements jointly with the FASB. The similarities and differences between the investment entities guidance in IFRS and US GAAP are discussed further in paragraphs BC289–BC291.

Scope of the project

BC222 The *Investment Entities* ED proposed a limited-scope exception to consolidation for investment entities. A number of respondents to the *Investment Entities* ED asked the Board to expand the scope of its proposals.

BC223 Some respondents asked the Board to expand the scope of the project to require an investment entity to measure all of its investments at fair value. However, the Board noted that, in most cases, existing IFRSs require or permit investments held by an investment entity to be measured at fair value. For example an entity:

- (a) may elect the fair value option in IAS 40 *Investment Property*; and
- (b) would be required to measure its financial assets at fair value through profit or loss in accordance with IFRS 9 (or IAS 39) when those assets are managed on a fair value basis.

Consequently, the Board decided to limit the scope of the project to only providing an exception to consolidation for investment entities.

BC224 Other respondents requested an extension of the proposed exception to consolidation. In particular, respondents from the insurance industry requested an exception to consolidating their interests in insurance investment funds. They argued that presenting the fair value of their interests in insurance investment funds as a single line item, along with a single line item for the current value of their liability to policyholders who receive the returns from those investment funds, would provide more useful information to users than consolidation. The Board noted that providing an exception to consolidation for insurers' interests in insurance investment funds is outside the scope of the *Investment Entities* project, which was meant to provide an exception to consolidation for investment entities. In addition, any additional exceptions to consolidation would require the Board to do further work to define the entities that could apply those exceptions. The Board noted that this additional exception to consolidation was not contemplated in the scope of the project nor was it exposed for comment. Consequently, the Board decided not to extend the proposed exception to consolidation.

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.
- BC227 The Board also considered providing an option to allow investment entities to either consolidate subsidiaries or measure them at fair value through profit or loss. However, the Board believes that providing this option would be inconsistent with their view that fair value information is the most relevant information for all investment entities. Moreover, providing an option would reduce comparability between different investment entities. Consequently, the Board decided that an investment entity should be required to measure its subsidiaries at fair value through profit or loss.

Approach to assessing investment entity status

- BC228 In the *Investment Entities* ED, the Board proposed six criteria that must be met in order for an entity to qualify as an investment entity. These criteria were based on guidance in US GAAP (Topic 946 *Financial Services— Investment Companies* in the *FASB Accounting Standards Codification*[®]).
- BC229 Many respondents expressed concern that requiring an entity to meet all six criteria proposed in the *Investment Entities* ED would be too prescriptive. They thought that the proposed criteria inappropriately focused on the structure of an investment entity rather than on its business model and did not allow for the use of judgement in determining whether an entity is an investment entity. These respondents stated that a less prescriptive approach to assessing the criteria would result in more consistent reporting by entities with similar business models.
- BC230 In addition, many respondents argued that the six proposed criteria in the *Investment Entities* ED did not provide a general description of an investment entity and an explanation of why fair value measurement is more relevant for the subsidiaries of an investment entity. Because the concept of an investment entity is new to IFRS, those respondents argued that the guidance should include a more general definition of an investment entity (rather than merely criteria to be an investment entity) and a justification for the exception to consolidation.
- BC231 In response to the comments from respondents, the Board decided to provide a definition of an investment entity based on some of the criteria originally proposed in the *Investment Entities* ED. An entity that meets the definition of an investment entity would not consolidate its controlled subsidiaries (other than those subsidiaries that provide investment-related services or activities)*.
- BC232 The Board agreed with respondents who stated that some of the proposed criteria were too strict and would inappropriately exclude some structures from qualifying as investment entities. The Board believes that there are structures in practice in which an entity does not meet one or more of the criteria that were described in the

* 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).

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.

BC240AIn 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.

BC240BThe 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').

BC240CSome 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 Board (see paragraph BC226).

BC240DThe 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

BC287 The Board also decided to require first-time adopters to apply the requirements retrospectively, subject to specific transition reliefs.

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.

Effective date and early application

BC288 The Board decided on a 1 January 2014 effective date for the requirements for investment entities. The Board noted that because these requirements provide an exception to consolidation, they should have the same effective date as the revised consolidation requirements in IFRS 10 (annual periods beginning on or after 1 January 2013). However, given that the investment entities requirements were published in October 2012, the Board did not believe that a 1 January 2013 effective date would give adequate time for implementation between the publication and effective dates. However, the Board decided to permit early application of the investment entity requirements. The Board noted that it expects many entities to apply the requirements early. Some investments in subsidiaries may not have been consolidated in accordance with IAS 27 and SIC-12 but, without the exception to consolidation, would need to be consolidated in accordance with IFRS 10. The Board noted that it would be potentially confusing to users of financial statements and time-consuming for the investment entity to consolidate a subsidiary in one accounting period and then carry the same investee at fair value in the following period. In addition, investment entities should already have the fair value information needed for implementation. Finally, the exception to consolidation has been a long-standing request from the investment entity industry. Consequently, the Board believes that many investment entities will want to adopt the requirements early.

Joint deliberations with the FASB

BC289 The Board deliberated this project jointly with the FASB. US GAAP has had comprehensive accounting guidance for investment companies for many years (contained in Topic 946 *Investment Companies*). By deliberating this project jointly, the boards hoped to achieve as similar guidance as possible. To that end, they came up with similar definitions of investment entities and guidance on how to assess investment entity status.

BC290 However, the scope of the project was different for the IASB and the FASB. The IASB's Investment Entities project started during the deliberations on the Consolidations project and was only intended to provide an exception to consolidation for investment entities. The FASB was seeking to improve and converge the definition of an investment company with that of the IASB because it already has comprehensive accounting and reporting guidance for investment companies.

BC291 While the boards reached many common decisions, as a result of this scope difference, and other jurisdictional differences, the IASB and the FASB came to different decisions in a number of areas. These include:

- (a) whether there should be a requirement that an investment entity measure and evaluate substantially all of its investments on a fair value basis rather than identifying such an activity as a typical characteristic of an investment entity;
- (b) whether there should be a reference to existing regulatory requirements in the definition of an investment entity;
- (c) whether an investment entity is permitted to provide investment-related services to third parties other than its own investors;

Appendix

Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs that are necessary in order to ensure consistency with IFRS 10 and the related amendments to other IFRSs. Amended footnotes are shown with new text underlined and deleted text struck through.

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

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 be deleted.

Paragraphs BC190A–BC190D 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 31²), 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.

BC190E 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.

BC190F 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.

BC190G 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 BC190E–BC190F were considered the best way to address this issue.

BC190H 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.

BC190I In response to concerns expressed by some interested parties, the Board clarified that paragraph B99A of IFRS 10 applies to all transactions between an investor and its associate or joint venture (that is accounted for using the equity method) that result in the loss of control of a subsidiary that does not constitute a business. Consequently, paragraph B99A of IFRS 10 does not apply:

- (a) to transactions with third parties, even if the parent retains an investment in the former subsidiary that becomes an associate or a joint venture accounted for using the equity method; or
- (b) when the investor elects to measure its investments in associates or joint ventures at fair value in accordance with IFRS 9.

BC190J During the finalisation of the amendments, the Board also clarified that the gain or loss resulting from a transaction within the scope of paragraph B99A of IFRS 10 includes:

- (a) the amounts previously recognised in other comprehensive income that would be reclassified to profit or loss in accordance with paragraph B99 of IFRS 10. This is because those amounts are part of the gain or loss recognised on the disposal of the subsidiary.

- (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.

Illustrative Examples

These examples accompany, but are not part of, the IFRS.

Example 1

- IE1 An entity, Limited Partnership, is formed in 20X1 as a limited partnership with a 10-year life. The offering memorandum states that Limited Partnership's purpose is to invest in entities with rapid growth potential, with the objective of realising capital appreciation over their life. Entity GP (the general partner of Limited Partnership) provides 1 per cent of the capital to Limited Partnership and has the responsibility of identifying suitable investments for the partnership. Approximately 75 limited partners, who are unrelated to Entity GP, provide 99 per cent of the capital to the partnership.
- IE2 Limited Partnership begins its investment activities in 20X1. However, no suitable investments are identified by the end of 20X1. In 20X2 Limited Partnership acquires a controlling interest in one entity, ABC Corporation. Limited Partnership is unable to close another investment transaction until 20X3, at which time it acquires equity interests in five additional operating companies. Other than acquiring these equity interests, Limited Partnership conducts no other activities. Limited Partnership measures and evaluates its investments on a fair value basis and this information is provided to Entity GP and the external investors.
- IE3 Limited Partnership has plans to dispose of its interests in each of its investees during the 10-year stated life of the partnership. Such disposals include the outright sale for cash, the distribution of marketable equity securities to investors following the successful public offering of the investees' securities and the disposal of investments to the public or other unrelated entities.

Conclusion

- IE4 From the information provided, Limited Partnership meets the definition of an investment entity from formation in 20X1 to 31 December 20X3 because the following conditions exist:
- (a) Limited Partnership has obtained funds from the limited partners and is providing those limited partners with investment management services;
 - (b) Limited Partnership's only activity is acquiring equity interests in operating companies with the purpose of realising capital appreciation over the life of the investments. Limited Partnership has identified and documented exit strategies for its investments, all of which are equity investments; and
 - (c) Limited Partnership measures and evaluates its investments on a fair value basis and reports this financial information to its investors.
- IE5 In addition, Limited Partnership displays the following typical characteristics of an investment entity:
- (a) Limited Partnership is funded by many investors;
 - (b) its limited partners are unrelated to Limited Partnership; and
 - (c) ownership in Limited Partnership is represented by units of partnership interests acquired through a capital contribution.

- IE6 Limited Partnership does not hold more than one investment throughout the period. However, this is because it was still in its start-up period and had not identified suitable investment opportunities.

Example 2

- IE7 High Technology Fund was formed by Technology Corporation to invest in technology start-up companies for capital appreciation. Technology Corporation holds a 70 per cent interest in High Technology Fund and controls High Technology Fund; the other 30 per cent ownership interest in High Technology Fund is owned by 10 unrelated investors. Technology Corporation holds options to acquire investments held by High Technology Fund, at their fair value, which would be exercised if the technology developed by the investees would benefit the operations of Technology Corporation. No plans for exiting the investments have been identified by High Technology Fund. High Technology Fund is managed by an investment adviser that acts as agent for the investors in High Technology Fund.

Conclusion

- IE8 Even though High Technology Fund's business purpose is investing for capital appreciation and it provides investment management services to its investors, High Technology Fund is not an investment entity because of the following arrangements and circumstances:
- (a) Technology Corporation, the parent of High Technology Fund, holds options to acquire investments in investees held by High Technology Fund if the assets developed by the investees would benefit the operations of Technology Corporation. This provides a benefit in addition to capital appreciation or investment income; and
 - (b) the investment plans of High Technology Fund do not include exit strategies for its investments, which are equity investments. The options held by Technology Corporation are not controlled by High Technology Fund and do not constitute an exit strategy.

Example 3

- IE9 Real Estate Entity was formed to develop, own and operate retail, office and other commercial properties. Real Estate Entity typically holds its property in separate wholly-owned subsidiaries, which have no other substantial assets or liabilities other than borrowings used to finance the related investment property. Real Estate Entity and each of its subsidiaries report their investment properties at fair value in accordance with IAS 40 *Investment Property*. Real Estate Entity does not have a set time frame for disposing of its property investments, but uses fair value to help identify the optimal time for disposal. Although fair value is one performance indicator, Real Estate Entity and its investors use other measures, including information about expected cash flows, rental revenues and expenses, to assess performance and to make investment decisions. The key management personnel of Real Estate Entity do not consider fair value information to be the primary measurement attribute to evaluate the performance of its investments but rather a part of a group of equally relevant key performance indicators.
- IE10 Real Estate Entity undertakes extensive property and asset management activities, including property maintenance, capital expenditure, redevelopment, marketing and tenant selection, some of which it outsources to third parties. This includes the selection of properties for refurbishment, development and the negotiation with

suppliers for the design and construction work to be done to develop such properties. This development activity forms a separate substantial part of Real Estate Entity's business activities.

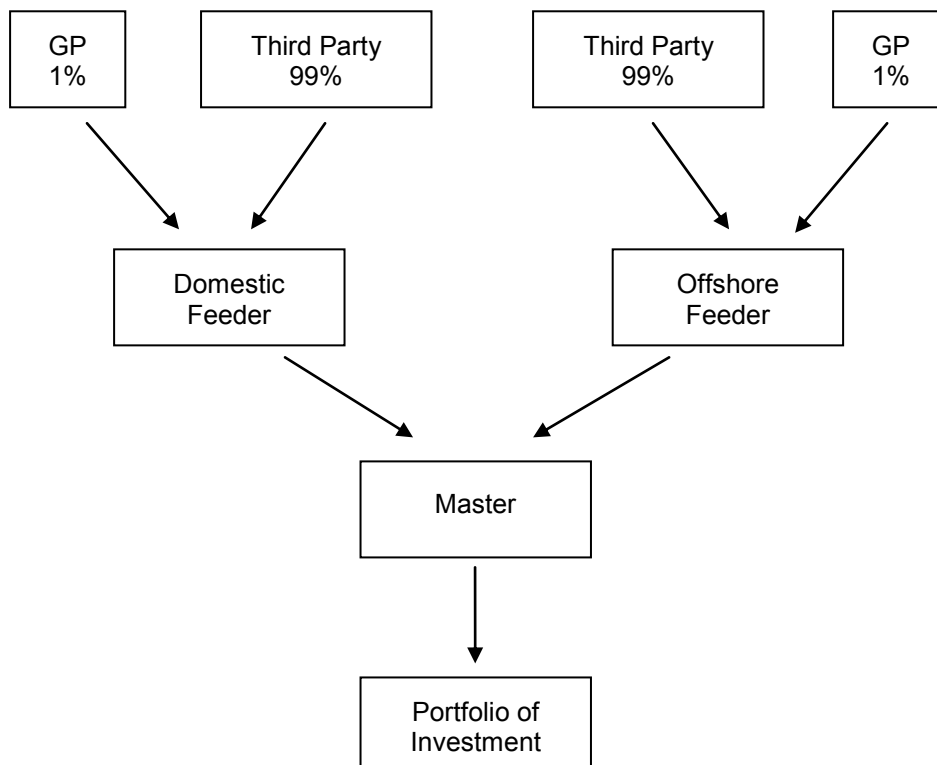
Conclusion

IE11 Real Estate Entity does not meet the definition of an investment entity because:

- (a) Real Estate Entity has a separate substantial business activity that involves the active management of its property portfolio, including lease negotiations, refurbishments and development activities, and marketing of properties to provide benefits other than capital appreciation, investment income, or both;
- (b) the investment plans of Real Estate Entity do not include specified exit strategies for its investments. As a result, Real Estate Entity plans to hold those property investments indefinitely; and
- (c) although Real Estate Entity reports its investment properties at fair value in accordance with IAS 40, fair value is not the primary measurement attribute used by management to evaluate the performance of its investments. Other performance indicators are used to evaluate performance and make investment decisions.

Example 4

IE12 An entity, Master Fund, is formed in 20X1 with a 10-year life. The equity of Master Fund is held by two related feeder funds. The feeder funds are established in connection with each other to meet legal, regulatory, tax or similar requirements. The feeder funds are capitalised with a 1 per cent investment from the general partner and 99 per cent from equity investors that are unrelated to the general partner (with no party holding a controlling financial interest).



IE13 The purpose of Master Fund is to hold a portfolio of investments in order to generate capital appreciation and investment income (such as dividends, interest or rental income). The investment objective communicated to investors is that the sole purpose of the Master-Feeder structure is to provide investment opportunities for investors in separate market niches to invest in a large pool of assets. Master Fund has identified and documented exit strategies for the equity and non-financial investments that it holds. Master Fund holds a portfolio of short- and medium-term debt investments, some of which will be held until maturity and some of which will be traded but Master Fund has not specifically identified which investments will be held and which will be traded. Master Fund measures and evaluates substantially all of its investments, including its debt investments, on a fair value basis. In addition, investors receive periodic financial information, on a fair value basis, from the feeder funds. Ownership in both Master Fund and the feeder funds is represented through units of equity.

Conclusion

IE14 Master Fund and the feeder funds each meet the definition of an investment entity. The following conditions exist:

- (a) both Master Fund and the feeder funds have obtained funds for the purpose of providing investors with investment management services;
- (b) the Master-Feeder structure's business purpose, which was communicated directly to investors of the feeder funds, is investing solely for capital appreciation and investment income and Master Fund has identified and documented potential exit strategies for its equity and non-financial investments.
- (c) although the feeder funds do not have an exit strategy for their interests in Master Fund, the feeder funds can nevertheless be considered to have an exit strategy for their investments because Master Fund was formed in connection with the feeder funds and holds investments on behalf of the feeder funds; and
- (d) the investments held by Master Fund are measured and evaluated on a fair value basis and information about the investments made by Master Fund is provided to investors on a fair value basis through the feeder funds.

IE15 Master Fund and the feeder funds were formed in connection with each other for legal, regulatory, tax or similar requirements. When considered together, they display the following typical characteristics of an investment entity:

- (a) the feeder funds indirectly hold more than one investment because Master Fund holds a portfolio of investments;
- (b) although Master Fund is wholly capitalised by the feeder funds, the feeder funds are funded by many investors who are unrelated to the feeder funds (and to the general partner); and
- (c) ownership in the feeder funds is represented by units of equity interests acquired through a capital contribution.

Amendments to guidance on other IFRSs

The following amendments to guidance on IFRSs are necessary in order to ensure consistency with IFRS 10 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

The amendments contained in this appendix when this Standard was issued have been incorporated into the relevant Standards.

HKFRS 12
Revised January 2015 ~~January 2017~~

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

	<i>from paragraph</i>
INTRODUCTION	IN1
HONG KONG FINANCIAL REPORTING STANDARD 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES	
OBJECTIVE	1
Meeting the objective	2
SCOPE	5
SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS	7
Investment entity status	9A
INTERESTS IN SUBSIDIARIES	10
The interest that non-controlling interests have in the group's activities and cash flows	12
The nature and extent of significant restrictions	13
Nature of the risks associated with an entity's interests in consolidated structured entities	14
Consequences of changes in a parent's ownership interest in a subsidiary that do not result in a loss of control	18
Consequence of losing control of a subsidiary during the reporting period	19
INTERESTS IN UNCONSOLIDATED SUBSIDIARIES (INVESTMENT ENTITIES)	19A
INTERESTS IN JOINT ARRANGEMENTS AND ASSOCIATES	20
Nature, extent and financial effects of an entity's interests in joint arrangements and associates	21
Risks associated with an entity's interests in joint ventures and associates	23
INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES	24
Nature of interests	26
Nature of risks	29
APPENDICES	
A Defined terms	
B Application guidance	
C Effective date and transition	
D Amendments to other HKFRSs	
E Comparison with International Financial Reporting Standards	
BASIS FOR CONCLUSIONS (<i>see separate booklet</i>)	

- 6 This HKFRS does not apply to:
- (a) post-employment benefit plans or other long-term employee benefit plans to which HKAS 19 *Employee Benefits* applies.
 - (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) an interest held by an entity that participates in, but does not have joint control of, a joint arrangement unless that interest results in significant influence over the arrangement or is an interest in a structured entity.
 - (d) an interest in another entity that is accounted for in accordance with HKFRS 9 *Financial Instruments*. However, an entity shall apply this HKFRS:
 - (i) when that interest is an interest in an associate or a joint venture that, in accordance with HKAS 28 *Investments in Associates and Joint Ventures*, is measured at fair value through profit or loss; or
 - (ii) when that interest is an interest in an unconsolidated structured entity.

Significant judgements and assumptions

- 7 **An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:**
- (a) **that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of HKFRS 10 *Consolidated Financial Statements*;**
 - (b) **that it has joint control of an arrangement or significant influence over another entity; and**
 - (c) **the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle.**
- 8 The significant judgements and assumptions disclosed in accordance with paragraph 7 include those made by the entity when changes in facts and circumstances are such that the conclusion about whether it has control, joint control or significant influence changes during the reporting period.
- 9 To comply with paragraph 7, an entity shall disclose, for example, significant judgements and assumptions made in determining that:
- (a) it does not control another entity even though it holds more than half of the voting rights of the other entity.
 - (b) it controls another entity even though it holds less than half of the voting rights of the other entity.

Appendix C

Effective date and transition

This appendix is an integral part of the HKFRS and has the same authority as the other parts of the HKFRS.

Effective date and transition

- C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted.
- C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 12 for an earlier period, it shall apply those amendments for that earlier period.
- C1B *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- 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.
- C2 An entity is encouraged to provide information required by this HKFRS earlier than annual periods beginning on or after 1 January 2013. Providing some of the disclosures required by this HKFRS does not compel the entity to comply with all the requirements of this HKFRS or to apply HKFRS 10, HKFRS 11, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) early.
- C2A The disclosure requirements of this HKFRS need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which HKFRS 12 is applied.
- C2B The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs B21–B26 of this HKFRS need not be applied for any period presented that begins before the first annual period for which HKFRS 12 is applied.

References to HKFRS 9

- C3 If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

*Basis for Conclusions on
Hong Kong Financial Reporting Standard 12*

Disclosure of Interests in Other Entities



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DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Nature of risks	BC92
The assets of structured entities	BC96
Exposure to loss	BC97
Providing financial support without having an obligation to do so	BC102
Risks arising from previous involvement with unconsolidated structured entities	BC107
Additional information that might be relevant to an assessment of risk	BC111
EFFECTIVE DATE AND TRANSITION	BC115
SUMMARY OF MAIN CHANGES FROM ED 9 AND ED 10	BC120
CONVERGENCE WITH US GAAP	BC121
COST-BENEFIT CONSIDERATIONS	BC123

BC61F The Board considered whether all of the disclosures in this IFRS should apply to the investments in unconsolidated subsidiaries, associates and joint ventures of investment entities. The Board decided that some (eg summarised financial information and information about non-controlling interests) are not applicable to investment entities and are inconsistent with the assertion that fair value information is the most relevant information for investment entities. Consequently, the Board decided to specify the IFRS 12 requirements applicable to the unconsolidated subsidiaries, associates and joint ventures held by investment entities.

BC61G Consistently with the principles in this IFRS, the Board decided to require an investment entity to disclose when any explicit or implicit financial support has been provided to entities that it controls. The Board concluded that it would help users of financial statements to understand an investment entity's exposure to risk.

BC61H The Board decided that an investment entity should disclose the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of investees to transfer funds to the investment entity in the form of cash dividends, or repayment of loans or advances. The Board considered this requirement to be useful for investors because such restrictions could potentially affect distributions to investors of the investment entity's returns from investments.

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.

Interests in unconsolidated structured entities

The need for the disclosure requirements

BC62 IAS 27 did not require disclosures relating to interests in unconsolidated entities. The Board was asked by users of financial statements, regulators and others (such as the G20 leaders and the Financial Stability Board) to improve the disclosure requirements for what are often described as 'off balance sheet' activities. Unconsolidated structured entities, particularly securitisation vehicles and asset-backed financings, were identified as forming part of such activities.

- BC63 The Board concluded that when an entity has an interest in an unconsolidated structured entity, users of financial statements would benefit from information about the risks to which the entity is exposed from that interest. Such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows.
- BC64 As proposed in ED 10, IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, the entity's interest in unconsolidated structured entities.
- BC65 Virtually all respondents to ED 10 agreed that there is a need for improved disclosures about an entity's exposure to risk from 'off balance sheet' activities. However, respondents expressed differing views on the nature and amount of information that should be disclosed. Some, including users of financial statements, supported the approach proposed in ED 10 to require disclosure of risks arising from interests in unconsolidated structured entities.
- BC66 Other respondents pointed out that an entity can be exposed to the same risks from having interests in all types of entities. Therefore, they questioned why an entity should be required to provide particular information about its exposure to risk from its interests in unconsolidated structured entities, but not with other unconsolidated entities.
- BC67 Some respondents were also concerned that the proposals would duplicate the risk disclosures in IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 requires an entity to disclose qualitative and quantitative information about risks arising from financial instruments that the entity holds. Those respondents expressed the view that ED 10 proposed disclosures about the counterparties of financial instruments to which the disclosure requirements in IFRS 7 already apply.
- BC68 In addition, some respondents disagreed with the proposals because they suspected that the Board had included the proposed disclosures as a 'safety net' because it was concerned that some structured entities might fail the consolidation criteria in ED 10, even though, in their view, consolidation would be appropriate.

BC119 Notwithstanding that decision, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities. In reaching that decision, the Board observed that if an entity chooses to apply some, but not all, of the requirements of IFRS 12 early, the entity would be required to continue to apply the disclosure requirements of IAS 27, IAS 28 and IAS 31 until such time that it applies all the requirements of IFRS 12.

BC119A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). The Board also decided to make similar amendments to the transition guidance in Appendix C to IFRS 11 *Joint Arrangements* and Appendix C to this IFRS to be consistent with this decision.

BC119B IFRS 12 introduces new disclosures relating to unconsolidated structured entities. Feedback from interested parties informed the Board that the changes to their accounting and reporting systems that are needed to capture this information were more onerous than originally envisaged, particularly in respect of comparative periods prior to the effective date of IFRS 12. Consequently, the Board decided to provide additional transition relief by eliminating the requirement to present comparatives for this information for periods beginning before the first year that IFRS 12 is applied.

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*.

Summary of main changes from ED 9 and ED 10

BC120 The main changes from the exposure drafts ED 9 and ED 10 are:

- (a) The disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities are included in IFRS 12, separately from the accounting requirements relating to an entity's interests in those entities. ED 9 and ED 10 had proposed that the disclosure requirements would be located with the accounting requirements in IAS 28, IFRS 10 and IFRS 11. (paragraphs BC7 and BC8)
- (b) IFRS 12 includes application guidance dealing with the aggregation of information disclosed in accordance with the requirements of the IFRS.
- (c) IFRS 12 requires the disclosure of significant judgements and assumptions made in determining whether an entity has a special relationship (ie control, joint control or significant influence) with another entity. ED 10 had proposed disclosure of the basis of an entity's assessment of whether it controls another entity in particular scenarios. (paragraphs BC14–BC19)

- (d) IFRS 12 requires the disclosure of summarised financial information for subsidiaries that have non-controlling interests that are material to the entity. ED 9 had proposed disclosing a list of significant subsidiaries. (paragraphs BC21–BC29)
- (e) IFRS 12 requires disclosure of the nature of, and risks associated with, an entity's interests in consolidated structured entities. (paragraphs BC34–BC36)
- (f) IFRS 12 requires the disclosure of summarised financial information for each material joint venture and associate, and requires more detailed information for joint ventures than for associates. ED 9 had proposed less detailed summarised financial information for each material joint venture and summarised financial information in aggregate for associates. (paragraphs BC47–BC52)
- (g) IFRS 12 requires entities that are venture capital organisations, mutual funds, unit trusts and similar entities to provide all the disclosures relating to interests in joint ventures and associates. ED 9 proposed that such entities would be required to provide only some of the disclosures relating to interests in joint ventures and associates. (paragraphs BC59 and BC60)
- (h) IFRS 12 does not require the disclosure of the reported amount of assets held by structured entities in which an entity has an interest. ED 10 had proposed disclosing such information. (paragraph BC96)

Convergence with US GAAP

BC121 Most of the disclosure requirements for consolidated and unconsolidated structured entities are similar to those for variable interest entities in Subtopic 810-10 in the *FASB Accounting Standards Codification*[®]. The Board developed many of those disclosure requirements in conjunction with the FASB, following the Financial Stability Board's recommendation to work with other accounting standard-setters to achieve international convergence in this area. However, IFRS 12 goes further than the disclosure requirements in Subtopic 810-10 because it requires an entity to disclose information about:

- (a) the interest that non-controlling interests have in the activities of a consolidated structured entity; and
- (b) the risks from sponsoring an unconsolidated structured entity for which the entity does not provide other risk disclosures.

BC122 IFRS 12 also includes more detailed disclosure requirements than US GAAP for subsidiaries, joint arrangements and associates (eg summarised financial information for subsidiaries with material non-controlling interests, and material joint ventures and associates).

Cost-benefit considerations

BC123 The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new IFRS might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

HKFRS 14
~~Issued February 2014~~ Revised January 2017

Effective for annual periods beginning
on or after 1 January 2016

Hong Kong Financial Reporting Standard 14

Regulatory Deferral Accounts



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Appendix D
Consequential amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

This appendix sets out an amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards that is a consequence of issuing HKFRS 14 Regulatory Deferral Accounts.

The amendment contained in this appendix when this HKFRS was issued in 2017 has been incorporated into the text of *HKFRS 1*.

HK(IFRIC)-Int 12
Revised February 2014 January 2017

Effective for annual periods
beginning on or after 1 January 2008

HK(IFRIC) Interpretation 12

Service Concession Arrangements



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BC61 Paragraph 24 of IFRIC 12 assumes that public-to-private service arrangement financial assets will not be categorised as held-to-maturity investments. Paragraph 9 of IAS 39 states that a financial asset may not be classified as a held-to-maturity investment if it meets the definition of a loan or receivable. An asset that meets the definition of a held-to-maturity investment will meet the definition of a loan or receivable unless:

- (a) it is quoted in an active market; or
- (b) the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

It is not envisaged that a public-to-private service arrangement financial asset will be quoted in an active market. Hence the circumstances of (a) will not arise. In the circumstances of (b), the asset must be classified as available for sale (if not designated upon initial recognition as at fair value through profit or loss).

BC62 The IFRIC considered whether the contract would include an embedded derivative if the amount to be received by the operator could vary with the quality of subsequent services to be provided by the operator or performance or efficiency targets to be achieved by the operator. The IFRIC concluded that it would not, because the definition of a derivative in IAS 39 requires, among other things, that the variable is not specific to a party to the contract. The consequence is that the contract's provision for variations in payments does not meet the definition of a derivative and, accordingly, the requirements of IAS 39 in relation to embedded derivatives do not apply. The IFRIC observed that if the amount to be received by the operator is conditional on the infrastructure meeting quality or performance or efficiency targets as described in paragraph BC44, this would not prevent the amount from being classified as a financial asset. The IFRIC also concluded that during the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) should be classified as a financial asset when it represents cash or another financial asset due from or at the direction of the grantor.

Intangible asset (paragraph 26)

BC63 The Interpretation requires the operator to account for its intangible asset in accordance with IAS 38. Among other requirements, IAS 38 requires an intangible asset with a finite useful economic life to be amortised over that life. Paragraph 97 states that 'the amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.'

BC64 The IFRIC considered whether it would be appropriate for intangible assets under paragraph 26 to be amortised using an 'interest' method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. However, the IFRIC concluded that there was nothing unique about these intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38 provides for a number of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and the units of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.

BC65 The IFRIC noted that interest methods of amortisation are not permitted under IAS 38. Therefore, IFRIC 12 does not provide exceptions to permit use of interest methods of amortisation.