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

MEMBERS' HANDBOOK

Update No. 136

(Issued 23 January 2014)

This Update relates to the issuance of:

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

Document Reference and Title	Instructions	Explanations
VOLUME II		
Contents of Volume II	Discard existing pages i - ii & replace with revised pages i - ii.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
Annual Improvements to HKFRSs 2010-2012 Cycle	Insert these pages after HKFRS 13 *Fair Value Measurement*	- Note
Annual Improvements to HKFRSs 2011-2013 Cycle	Insert these pages after *Annual Improvements to HKFRSs 2010-2012 Cycle*	- Note

Note:

Annual Improvements to HKFRSs 2010-2012 Cycle and *Annual Improvements to HKFRSs 2011-2013 Cycle* set out a collection of amendments to HKFRS in response to the International Accounting Standards Board's (IASB) annual improvements project to make necessary, but non-urgent, amendments to HKFRS that will not be included as part of any other project. By presenting the amendments in the form of a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned.

The effective date of each amendment is included in the HKFRS affected.

The following table lists the HKFRS and topics addressed by *Annual Improvements to HKFRSs 2010-2012 Cycle*.

Standard	Subject of amendment
HKFRS 2 *Share-based Payment*	Definition of vesting condition
HKFRS 3 *Business Combinations*	Accounting for contingent consideration in a business combination

Standard	Subject of amendment
HKFRS 8 *Operating Segments*	Aggregation of operating segments
	Reconciliation of the total of the reportable segments' assets to the entity's assets
HKFRS 13 *Fair Value Measurement*	Short-term receivables and payables
HKAS 16 *Property, Plant and Equipment*	Revaluation method – proportionate restatement of accumulated depreciation
HKAS 24 *Related Party Disclosures*	Key management personnel
HKAS 38 *Intangible Assets*	Revaluation method – proportionate restatement of accumulated amortisation

The following table lists the HKFRS and topics addressed by *Annual Improvements to HKFRSs 2011-2013 Cycle*.

Standard	Subject of amendment
HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*	Meaning of 'effective HKFRSs'
HKFRS 3 *Business Combinations*	Scope exceptions for joint ventures
HKFRS 13 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception)
HKAS 40 *Investment Property*	Clarifying the interrelationship between HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property

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CONTENTS OF VOLUME II

(Updated to January 2014)

Hong Kong Financial Reporting Standard

Annual Improvements to HKFRSs 2010-2012 Cycle

Hong Kong Institute of
Certified Public Accountants
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Introduction

This document sets out amendments to Hong Kong Financial Reporting Standards (HKFRSs) and the related Bases for Conclusions and guidance made in response to the International Accounting Standards Board's Annual Improvements process.

These amendments result from proposals that were contained in the Exposure Draft of *Annual Improvements to IFRSs 2010–2012 Cycle* published in May 2012.

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to HKFRSs.

Some amendments result in consequential amendments to other HKFRSs. Those consequential amendments are set out in the same section as the amended HKFRS.

The effective date of each amendment is included in the HKFRSs affected.

Standards addressed

The following table shows the topics addressed by these amendments.

Standard	**Subject of amendment**
HKFRS 2 *Share-based Payment*	Definition of vesting condition
HKFRS 3 *Business Combinations*	Accounting for contingent consideration in a business combination
HKFRS 8 *Operating Segments*	Aggregation of operating segments
	Reconciliation of the total of the reportable segments' assets to the entity's assets
HKFRS 13 *Fair Value Measurement*	Short-term receivables and payables
HKAS 16 *Property, Plant and Equipment*	Revaluation method—proportionate restatement of accumulated depreciation
HKAS 24 *Related Party Disclosures*	Key management personnel
HKAS 38 *Intangible Assets*	Revaluation method—proportionate restatement of accumulated amortisation

Amendment to HKFRS 2 *Share-based Payment*

Paragraphs 15 and 19 were amended and paragraph 63B was added. New text is underlined and deleted text is struck through.

Transactions in which services are received

…

15 If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period*. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:

(a) …

(b) if an employee is granted share options conditional upon the achievement of a ~~performance condition~~ *performance condition* and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. …

Treatment of vesting conditions

19 A grant of equity instruments might be conditional upon satisfying specified ~~*vesting conditions*~~ vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a ~~vesting condition~~ *vesting condition*, eg the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

…

Effective date

…

63B *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraphs 15 and 19. In Appendix A, the definitions of ‘vesting conditions’ and ‘market condition’ were amended and the definitions of ‘performance condition’ and ‘service condition’ were added. An entity shall prospectively apply that amendment to share-based payment transactions for which the grant date is 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.

In Appendix A, the definitions of ‘market condition’ and ‘vesting conditions’ are amended and the definitions of ‘performance condition’ and ‘service condition’ are added. New text is underlined and deleted text is struck through.

Appendix A
Defined terms

This appendix is an integral part of the HKFRS.

…

market condition A **performance condition** ~~condition~~ upon which the exercise price, vesting or exercisability of an **equity instrument** depends that is related to the market price (or value) of the entity’s **equity instruments** (or the equity instruments of another entity in the same group), such as:

(a) attaining a specified share price or a specified amount of **intrinsic value** of a **share option**~~,~~; or

(b) achieving a specified target that is based on the market price (or value) of the entity’s **equity instruments** (or the equity instruments of another entity in the same group) relative to an index of market prices of **equity instruments** of other entities.

A market condition requires the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit.

…

continued…

…continued

performance condition

A **vesting condition** that requires:

(a) the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit; and

(b) specified performance target(s) to be met while the counterparty is rendering the service required in (a).

The period of achieving the performance target(s):

(a) shall not extend beyond the end of the service period; and

(b) may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.

A performance target is defined by reference to:

(a) the entity's own operations (or activities) or the operations or activities of another entity in the same group (ie a non-market condition); or

(b) the price (or value) of the entity's **equity instruments** or the equity instruments of another entity in the same group (including shares and **share options**) (ie a **market condition**).

A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.

…

service condition

A **vesting condition** that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the **vesting period**, it has failed to satisfy the condition. A service condition does not require a performance target to be met.

…

vesting condition~~s~~

~~The~~ A condition~~s~~ that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. A v~~V~~esting condition~~s are~~ is either ~~service conditions~~ a **service condition** or ~~performance conditions~~ a **performance condition**. ~~Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market condition**.~~

Amendment to the Basis for Conclusions on IFRS 2 *Share-based Payment*

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC334–BC370 and their related headings are added.

Definition of vesting condition (2013 amendments)

BC334 The Board decided to clarify the definition of 'vesting conditions' in IFRS 2 to ensure the consistent classification of conditions attached to a share-based payment. Previously, this Standard did not separately define 'performance condition' or 'service condition', but instead described both concepts within the definition of vesting conditions.

BC335 The Board decided to separate the definitions of performance condition and service condition from the definition of vesting condition to make the description of each condition clearer.

BC336 In response to the comments received on the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* (Proposed amendments to International Financial Reporting Standards) (the 'ED'), published in May 2012, the Board addressed the following concerns that had been raised about the definitions of performance condition, service condition and market condition:

(a) whether a performance target can be set by reference to the price (or value) of another entity (or entities) that is (are) within the group;

(b) whether a performance target that refers to a longer period than the required service period may constitute a performance condition;

(c) whether the specified period of service that the counterparty is required to complete can be either implicit or explicit;

(d) whether a performance target needs to be influenced by an employee;

(e) whether a share market index target may constitute a performance condition or a non-vesting condition;

(f) whether the definition of performance condition should indicate that it includes a market condition;

(g) whether a definition of non-vesting condition is needed; and

(h) whether the employee's failure to complete a required service period due to termination of employment is considered to be a failure to satisfy a service condition.

Whether a performance target can be set by reference to the price (or value) of another entity (or entities) that is (are) within the group

BC337 The Board decided to clarify that within the context of a share-based payment transaction that involves entities in the same group, a performance target can be defined by the price (or value) of the equity instruments of another entity in that group. This amendment is consistent with the guidance in paragraphs 3A and 43A–43D of IFRS 2. Paragraph 3A, which provides guidance about the scope of IFRS 2, states that "a share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services".

BC338 The Board decided to make a similar amendment to the definition of market condition to indicate that a market condition can be based on the market price of the entity's equity instruments or the equity instruments of another entity in the same group.

Whether a performance target that refers to a longer period than the required service period may constitute a performance condition

BC339 The Board observed that IFRS 2 was not clear about the duration of a performance target relative to the duration of the related service condition. Some understood IFRS 2 to require that the duration of the performance has to be wholly within the period of the related service requirement; others understood that a performance target could be achieved over a period that extends beyond the period for which the employee is required to provide a service.

BC340 During its deliberations prior to the issue of the ED, the Board decided to clarify that the duration of the performance condition needed to be wholly within the period of the related service requirement. This meant that the period of achieving the performance target could not start before, or end after, the service period. This requirement was reflected in the ED.

BC341 Some respondents to the ED disagreed with the requirement that the duration of the performance condition needed to be wholly within the period of the related service, because they asserted that it was common for a performance target to start before the service period. For example, a performance target could be set as a measure of the growth in earnings per share (the 'EPS target') between the most recently published financial statements on the grant date and the most recently published financial statements before the vesting date.

BC342 Other respondents noted that if the beginning of the period for achieving the performance target was restricted, then a relatively minor difference in the way that the awards are structured could lead to a different classification of the performance target (ie as either a non-vesting condition or a performance (vesting) condition), which could consequently lead to differences in the way in which the award would be accounted for in accordance with the guidance in IFRS 2.

BC343 In response to the comments received on the ED, the Board decided to revise the proposed definition of performance condition. In this revision, the Board decided to ease the restriction on when the period for a performance target could start. It therefore decided to clarify that the start of the period of achieving the performance target could be before the service period, provided that the commencement date of the performance target is not substantially before the commencement of the service period.

BC344 However, the Board decided to retain the proposal in the ED that the period over which the performance target is achieved should not extend beyond the service period. It thought that this decision was consistent with the definition of a performance condition, which was previously included within the definition of a vesting condition. The definition of a performance condition requires the counterparty to complete a specified period of service and to meet the performance target(s) while the counterparty is rendering the service required. The definition of performance condition reflects the principle in paragraph 7 of IFRS 2, which states that "An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received".

BC345 The Board also decided to add the words "ie a **service condition**" to criterion (a) of the definition of performance condition in order to create a cross-reference to the definition of service condition.

Whether the specified period of service that the counterparty is required to complete can be either implicit or explicit

BC346 In the definition of performance condition, the Board decided to highlight a feature that distinguishes a performance condition from a non-vesting condition in accordance with paragraph BC171A of IFRS 2; namely, that a performance condition has an explicit or implicit service requirement and a non-vesting condition does not. This is so that, in order to constitute a performance condition, a performance target needs to be accompanied by a service requirement, which can be implicit or explicit. The Board observed that if the share-based payment arrangement does not contain an explicit requirement to provide services, the arrangement may still contain an implicit service condition.

Whether a performance target needs to be influenced by an employee

BC347 During its deliberations the Board observed that for a target to constitute a performance condition it needs to be both 'within the influence' of the employee and in the interest of the entity. Consequently, the Board proposed that the definition of performance condition should make clear that a performance target is defined by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments (including shares and share options).

BC348 In response to the ED, some respondents indicated that the reason why the performance target needed to be within the influence of the employee was unclear and found it to be contradictory to the proposed definition of performance condition. This is because in the proposed definition, the performance target was defined by reference to the performance of the entity, that is, by reference to the entity's own operations (or activities) or the price (or value) of its equity instruments. Some other respondents also raised some difficulties that they expected to encounter when applying the proposed guidance. In this respect, the respondents stated that determining whether a performance target is within the influence of the employee would be difficult to apply in the case of a group of entities; for example, the profit or share price of a group of companies could be seen to be 'remote from the influence of' an employee of a particular subsidiary of the group.

BC349 The Board observed that requiring a performance target to be within the influence of the employee could be misinterpreted as meaning that the Board's intention was to challenge management to explain how the performance of the employee affects the performance target. The Board confirmed that it was not its intention to do so. It observed that the link between the employee's service/performance against a given performance target is management's responsibility. It noted that each employee has, in varying degrees, an influence over an entity's (or group's) overall performance, that is, over an entity's (or group's) own operations (or activities) or the price (or value) of its equity instruments. Consequently, the Board decided to omit the requirement that the target "needs to be within the influence of the employee" to avoid further confusion.

BC350 In its review of the definition of performance condition the Board also considered what, if any, level of correlation is required between an employee's responsibility and the performance target. Potential diversity in practice had emerged because some were of the view that if share based payment awards are granted to employees conditional on the entity-wide profit, it is not clear that the profit target constitutes a performance condition on the basis that the employee might have so little influence on the entity-wide profit that it is not clear whether the target is able to sufficiently incentivise an individual employee's actions. Others held the view that because the entity is in business in order to make a profit, it is reasonable to assume that all employees contribute directly or indirectly to the entity-wide profit, ie that the whole body of employees contribute towards the entity-wide profit.

BC351 In the ED the Board observed that it is reasonable to assume that the performance target that is set by management for an employee's share-based payment appropriately incentivises the employee to provide an increased quality and/or quantity of service to benefit the entity. Consequently, the Board decided that the definition of performance condition should make clear that a performance target may relate either to the performance of the entity as a whole or to some part of it, such as a division or an individual employee.

BC352 Respondents to the ED questioned whether it was the Board's intention to require an entity to demonstrate, or provide evidence of, the correlation between an employee's responsibility and the performance target in order for that target to be a performance condition. During its deliberations, the Board confirmed that it was not its intention to require an entity to prove this correlation.

Whether a share market index target may constitute a performance condition or a non-vesting condition

BC353 The Board analysed the case in which a share-based payment is conditional on a share market index target and whether it would be considered a performance condition or a non-vesting condition. For example, a grant might be conditional on a stock exchange index (of which the entity's shares are a part) reaching a specified target and the employee remaining in service up to the date that the target is met.

BC354 The Board observed that some might argue that the share market index target with the implicit service requirement constitutes a performance condition, because an employee is required to provide service to the entity, and that the time estimated to affect the share market index target implicitly determines how long the entity receives the required service. Others might argue that the share market index target is a non-vesting condition because it is not related to the performance of the entity (ie instead it is related to, or based on, not only the entity's share price but also the share price of other unrelated entities).

BC355 In the ED the Board observed that the share market index target would be considered a non-vesting condition because it is not related to the performance of the entity or of another entity in the same group, even if the shares of the entity or of another entity in the same group form part of that index. The Board also observed that a share market index target may be predominantly affected by many external variables or factors involved in its determination, including macroeconomic factors such as the risk-free interest rate or foreign exchange rates and, consequently, it is remote from the influence of the employee.

BC356 Respondents to the ED agreed that it would be reasonable to assume that the share market index target is a non-vesting condition but some thought that it should not be based on the level of influence exercised by an employee over the performance target or on whether the target is affected by external variables or factors. This is because, in their view, the level of influence and the effect of external variables are subjective reasons that are difficult to measure.

BC357 The Board decided to reaffirm its position that a share market index is a non-vesting condition but, on the basis of the comments received, it is clarifying that the reason why it is a non-vesting condition is because a share market index not only reflects the performance of an entity but, in addition, also reflects the performance of other entities outside the group.

BC358 The Board also considered a similar case in which the entity's share price makes up a substantial part of the share market index. The Board determined that even in such a case the condition should still be considered a non-vesting condition because it reflects the performance of other entities that are outside the group.

Whether the definition of performance condition should indicate that it includes a market condition

BC359 A respondent to the ED noted that the final sentence of the definition of vesting conditions, which states that "a performance condition might include a market condition", is contradictory. This is because a market condition:

(a) is a target that is related to the market price of the entity's equity instruments; and

(b) includes no explicit requirement for the counterparty to complete a specified period of service.

BC360 The Board observed that, on the basis of the definition of performance condition, a performance target that is related to the market price of an entity's equity instruments and to the completion of a specified period of service is considered a market (performance) condition. Consequently, the Board disagreed that an inconsistency existed in the definitions of performance condition and market condition. To avoid confusion in the definitions of performance condition and market condition, the Board decided to:

(a) delete the last sentence in the definition of vesting condition (ie "a performance condition might include a market condition"); and

(b) indicate within the definition of performance condition that performance conditions are either market conditions or non-market conditions.

BC361 The Board decided to confirm that a market condition is a type of performance condition. The Board considered that a condition that is not subject to a service requirement is not a performance condition, and instead, is considered a non-vesting condition. In making this clarification, the Board did not change the measurement requirements in IFRS 2 for a market condition.

Whether a definition of 'non-vesting condition' is needed

BC362 Respondents to the ED thought that clarity could be further improved in IFRS 2 by defining a 'non-vesting condition'.

BC363 The Board noted that there is no formal definition of non-vesting condition in IFRS 2, but Implementation Guidance on the split between vesting and non-vesting conditions is provided in a flowchart in paragraph IG24 of IFRS 2.

BC364 The Board determined that the creation of a stand-alone definition of non-vesting condition would not be the best alternative for providing clarity on this issue. This is because the Board observed that the concept of a non-vesting condition can be inferred from paragraphs BC170–BC184 of IFRS 2, which clarify the definition of vesting conditions. In accordance with this guidance it can be inferred that a non-vesting condition is any condition that does not determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. In other words, a non-vesting condition is any condition that is not a vesting condition. On the basis of its analysis the Board decided to not add a definition of non-vesting condition.

Whether the employee's failure to complete a required service period due to termination of employment is considered to be a failure to satisfy a service condition

BC365 When considering a possible revision of the definition of service condition, the Board observed that in IFRS 2 there is no specific guidance on how to account for a share-based payment award when the entity terminates an employee's employment.

BC366 The Board noted, however, that paragraph 19 of this Standard regards the employee's failure to complete a specified service period as a failure to satisfy a service condition. In the ED the Board proposed to clarify within the definition of service condition that if the employee fails to complete a specified service period, the employee thereby fails to satisfy a service condition, regardless of the reason for that failure. The Board also noted that the accounting consequence is that the compensation expense would be reversed if an employee fails to complete a specified service period.

BC367 Some respondents to the ED thought that more clarity could be provided in the proposed guidance. This is because they noted that in some circumstances in which an employee is unable to perform the service condition by completing the stipulated service period (such as when the employee is ill or dies in service), it would normally be expected that part of the award would vest and that the related compensation expense should not be reversed. They noted that, to the extent that a portion of the award vests, that portion should be recognised as an expense.

BC368 In response to the comments received, the Board noted that the objective of the proposed amendment to the definition of service condition is to clarify that the termination of an employee's employment is a situation in which the employee fails to complete a specified service period and, consequently, is considered a situation in which the service condition is not met.

BC369 The Board observed that in circumstances in which equity instruments do not vest because of failure to satisfy a vesting condition, paragraph 19 of IFRS 2 states that "on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of a failure to satisfy a vesting condition". The Board observed that in circumstances in which the equity instruments either partly or fully vest on cessation of employment, paragraph 23 of IFRS 2 states that "the entity shall make no subsequent adjustment to total equity after vesting date". The Board also noted that, in accordance with paragraph 28, "if a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period". Noting the guidance already provided in IFRS 2, the Board concluded that further guidance was not necessary.

Transition provisions

BC370 The Board considered the transition provisions and effective date of the amendment to IFRS 2. The Board noted that the changes to the definitions of vesting conditions and market condition and the addition of performance condition and service condition might result in changes to the grant-date fair value of share-based payment transactions for which the grant date was in previous periods. To avoid the use of hindsight, it decided that an entity would apply the amendments to IFRS 2 prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014. Earlier application should be permitted.

Amendment to HKFRS 3 *Business Combinations*

Paragraphs 40 and 58 are amended and paragraph 64I and paragraph 67A and its related heading are added. New text is underlined and deleted text is struck through.

Contingent consideration

…

40 The acquirer shall classify an obligation to pay contingent consideration <u>that meets the definition of a financial instrument</u> as a <u>financial</u> liability or as equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 11 of HKAS 32 *Financial Instruments: Presentation*~~, or other applicable HKFRSs~~. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph 58 provides guidance on the subsequent accounting for contingent consideration.

…

Contingent consideration

58 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 45–49. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) …

(b) <u>Other c</u>~~C~~ontingent consideration ~~classified as an asset or a liability~~ that:

(i) ~~is a financial instrument and~~ is within the scope of HKFRS 9 shall be measured at fair value <u>at each reporting date</u>~~, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income~~ <u>and changes in fair value shall be recognised in profit or loss</u> in accordance with HKFRS 9.

(ii) is not within the scope of HKFRS 9 shall be ~~accounted for in accordance with HKAS 37 or other HKFRSs as appropriate.~~ <u>measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.</u>

…

Effective date

…

64I *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraphs 40 and 58 and added paragraph 67A and its related heading. An entity shall apply that amendment prospectively to business combinations for which the acquisition date is on or after 1 July 2014. Earlier application is permitted. An entity may apply the amendment earlier provided that HKFRS 9 and HKAS 37 (both as amended by *Annual Improvements to HKFRSs 2010–2012 Cycle*) have also been applied. If an entity applies that amendment earlier it shall disclose that fact.

…

Reference to HKFRS 9

67A If an entity applies this Standard but does not yet apply HKFRS 9, any reference to HKFRS 9 should be read as a reference to HKAS 39.

Consequential amendments to other HKFRSs resulting from the amendment to HKFRS 3

Amendment to HKFRS 9 *Financial Instruments* (issued in November 2009)

Paragraph 5.4.4 is amended and paragraph 8.1.4 is added. New text is underlined.

Investments in equity instruments

5.4.4 **At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this HKFRS that is not *held for trading* <u>and is also not contingent consideration of an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies</u>.**

…

8.1 Effective date

…

<u>8.1.4</u> <u>*Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 5.4.4 as a consequential amendment derived from the amendment to HKFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to HKFRS 3 applies.</u>

Amendment to HKFRS 9 *Financial Instruments* (issued in November 2010)

Paragraphs 4.2.1 and 5.7.5 are amended and paragraph 7.1.4 is added. New text is underlined.

4.2 Classification of financial liabilities

4.2.1 **An entity shall classify all financial liabilities as subsequently measured at amortised cost using the *effective interest method*, except for:**

(a) ...

(<u>e</u>) <u>contingent consideration of an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies. Such contingent consideration shall subsequently be measured at fair value.</u>

…

Investments in equity instruments

5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this HKFRS that is not *held for trading* and is also not contingent consideration of an acquirer in a business combination to which HKFRS 3 applies.

…

7.1 Effective date

…

7.1.4 *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraphs 4.2.1 and 5.7.5 as a consequential amendment derived from the amendment to HKFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to HKFRS 3 applies.

Amendment to HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 5 is amended and paragraph 99 is added. New text is underlined and deleted text is struck through.

Scope

…

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

(a) …

(d) employee benefits (see HKAS 19 *Employee Benefits*); ~~and~~

(e) insurance contracts (see HKFRS 4 *Insurance Contracts*). However, this Standard applies to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of HKFRS 4~~.~~; and

(f) contingent consideration of an acquirer in a business combination (see HKFRS 3 *Business Combinations*).

…

Effective date

…

99 *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 5 as a consequential amendment derived from the amendment to HKFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to HKFRS 3 applies.

Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement*[1]

Paragraph 9 is amended and paragraph 108F is added. New text is underlined.

Definitions

…

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

…

Definitions of four categories of financial instruments

A *financial asset or financial liability at fair value through profit or loss* is a financial asset or financial liability that meets ~~either~~ any of the following conditions.

(a) …

(aa) It is contingent consideration of an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

(b) …

[1] HKFRS 9 *Financial Instruments* (issued in November 2010) and HKFRS 9 *Financial Instruments (Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*) (issued in December 2013) deleted the 'Definitions of four categories of financial instruments' in paragraph 9 of HKAS 39.

Effective date and transition

…

108F *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 9 as a consequential amendment derived from the amendment to HKFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to HKFRS 3 applies.

Amendment to the Basis for Conclusions on IFRS 3 *Business Combinations*

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC360A–BC360J and their related headings are added.

Clarification on the accounting for contingent consideration in a business combination

BC360A The IASB clarified the accounting for contingent consideration arising from business combinations.

Classification of contingent consideration in a business combination

BC360B The IASB noted that the classification requirements in paragraph 40 of IFRS 3 were unclear as to when, if ever, "other applicable IFRSs" would need to be used to determine the classification of contingent consideration as a financial liability or as an equity instrument. Consequently, the IASB deleted the reference to "other applicable IFRSs" in paragraph 40.

Subsequent measurement of contingent consideration in a business combination

BC360C The IASB also noted that the requirements for subsequent measurement in paragraph 58 require contingent consideration, other than that which meets the definition of equity in accordance with IAS 32 *Financial Instruments: Presentation*, to be subsequently measured at fair value. However, paragraph 58 then refers to IFRS 9 *Financial Instruments* (or IAS 39, if IFRS 9 has not yet been applied), IAS 37 or other IFRSs as appropriate, which may not require subsequent measurement at fair value.

Subsequent measurement of contingent consideration that is a financial instrument

BC360D The IASB noted that the requirements for subsequent measurement in paragraph 58 for contingent consideration that is a financial instrument within the scope of IFRS 9 (or IAS 39) were inconsistent with the accounting requirements of IFRS 9 (or IAS 39). Because paragraph 58 referred to IFRS 9 (or IAS 39), which allows amortised cost measurement in some circumstances, contingent consideration that is a financial liability might be classified as being measured at amortised cost. This would conflict with the requirement in paragraph 58 that such contingent consideration should be subsequently measured at fair value. Consequently, the IASB amended the classification requirements of IFRS 9 (and IAS 39) to ensure that the subsequent measurement requirement for contingent consideration that is a financial liability is fair value. The IASB thinks that this clarifies the original intention for subsequent measurement of contingent consideration as explained in paragraph BC355.

BC360E In redeliberating this issue, the IASB decided that it would not be possible for contingent consideration that is a financial asset that meets the requirements in IFRS 9 to be subsequently measured at amortised cost (because the contractual terms of contingent consideration that is a financial asset would not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding). Consequently, the IASB decided that the proposed amendments to paragraph 4.1.2 of IFRS 9 in the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* were not needed.

BC360F The IASB also decided that changes in fair value of any contingent consideration that is a financial asset or a financial liability should be recognised in profit or loss. Consequently, the IASB decided to amend paragraph 5.7.5 of IFRS 9 to ensure that any change in the fair value of investments in equity instruments that are contingent consideration in a business combination should be presented in profit or loss. The IASB noted that it was unlikely that contingent consideration that is an asset would meet the definition of equity. However, it decided to amend the paragraph to ensure that all contingent consideration that is made up of financial instruments is accounted for consistently.

Subsequent measurement of contingent consideration that is a non-financial asset or a non-financial liability

BC360G The IASB also noted that the subsequent measurement requirements in paragraph 58(b) for contingent consideration that is a non-financial asset or a non-financial liability may conflict with the measurement requirements in other applicable Standards. The conflict arises because paragraph 58 refers to changes in the fair value of contingent consideration but paragraph 58(b) refers to Standards that do not require fair value as a measurement basis, for example, IAS 37. Consequently, the IASB deleted the reference to "IAS 37 or other IFRSs as appropriate" from paragraph 58(b). This, therefore, maintains fair value as the subsequent measurement basis for all non equity contingent consideration to which IFRS 3 applies. The IASB thinks that this clarifies the original intention for subsequent measurement of contingent consideration as explained in paragraph BC355.

BC360H The IASB also decided that the full change in the fair value of any contingent consideration that is a non-financial asset or a non-financial liability should be recognised in profit or loss.

Other considerations given to subsequent measurement of contingent consideration

BC360I The IASB considered alternatives for the subsequent measurement requirements for contingent consideration. It considered whether all references to other Standards, including references to IFRS 9 (or IAS 39), should be removed and instead all necessary guidance for the subsequent measurement of contingent consideration should be included in IFRS 3. It decided, however, to amend IFRS 9 (and IAS 39) as a consequential amendment derived from the amendment to IFRS 3 and to retain the link to IFRS 9 (or IAS 39) so that the general guidance in IFRS 9 (or IAS 39) applies to contingent consideration that is within the scope of IFRS 9 (or IAS 39). The IASB also considered whether some liability contingent consideration should be measured at fair value with some fair value changes being presented in other comprehensive income. It decided that it was preferable that the guidance was consistent for all liability contingent consideration and, consequently, it decided that all liability contingent consideration should be subsequently measured at fair value with any resulting gain or loss, including gain or loss attributable to changes in own credit risk, being recognised in profit or loss.

Disclosure

BC360J Some stakeholders had asked whether the IASB had intended the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* to apply to contingent consideration, noting that there are disclosure requirements for contingent consideration in IFRS 3. The IASB thinks that it is appropriate for the disclosure requirements of IFRS 7 to apply to contingent consideration that is a financial instrument within the scope of IFRS 7. Consequently, the IASB decided not to make any changes to the scope of IFRS 7 to exclude such financial instruments.

Paragraph BC434A is amended and paragraph BC434D and its related heading are added. New text is underlined and deleted text is struck through.

Transition requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (as revised in 2008)

BC434A In *Improvements to IFRSs* issued in May 2010, the Board addressed a perceived conflict in the guidance on accounting for contingent consideration in a business combination. The perceived conflict related to the transition guidance for contingent consideration arising from business combinations that had been accounted for in accordance with IFRS 3 (as issued in 2004). Before their deletion in January 2008, paragraph 3(c) of IFRS 7 ~~*Financial Instruments: Disclosures*~~, paragraph 4(c) of IAS 32 ~~*Financial Instruments: Presentation*~~ and paragraph 2(f) of IAS 39 ~~*Financial Instruments: Recognition and Measurement*~~ excluded contingent consideration arrangements from the scope of those IFRSs. To allow the acquirer to account for contingent consideration as required by IFRS 3 (revised 2008), the Board deleted those scope exceptions in the second phase of its project on business combinations.

…

Effective date and transition for clarifications of the accounting for contingent consideration that arises from business combinations

BC434D *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, clarifies the accounting for contingent consideration that arises from business combinations. The IASB considered whether the transition provisions of paragraph 19 in IAS 8 should apply, which require retrospective application. The IASB considered that the amendments required fair value measurement, and that some entities might not have previously applied fair value measurement for the subsequent measurement of contingent consideration. Retrospective application might therefore require the determination of fair value for contingent consideration, which might not have been previously measured at fair value following initial recognition. It may be impracticable for an entity to determine the fair value of such contingent consideration without using hindsight. Consequently, the IASB decided to require prospective application to avoid the risk of hindsight being applied. The IASB also decided on a 1 July 2014 mandatory effective date for the amendments to IFRS 3 and the consequential amendments to IAS 37 as well as to IFRS 9 and IAS 39, depending on the financial instruments Standard that is applied by the entity at the time that this amendment becomes effective.

The following footnote is added after "… in accordance with that IFRS)" in paragraph BC437(c).

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended IFRS 3, IFRS 9, IAS 37 and IAS 39 to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.

Amendment to the Illustrative Examples on IFRS 3 *Business Combinations*

In the Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R) section, the descriptions of the requirements for subsequent measurement of contingent consideration in the 'IFRS 3 (as revised in 2008)' column of the table following paragraph 3 are amended. The footnote to 'IAS 39 *Financial Instruments: Recognition and Measurement*' in (a) of the subsequent measurement for 'contingent consideration' is deleted and a footnote is added to 'contingent consideration' in the same table. New text is underlined and deleted text is struck through.

Comparison of IFRS 3 (as revised in 2008) and SFAS 141(R)

…

Guidance	**IFRS 3 (as revised in 2008)**	**SFAS 141(R)**
…	…	
Contingent consideration[(d)]	**Initial classification** …	
	Subsequent measurement Contingent consideration classified as an asset or a liability that: (a) ~~is a financial instrument and~~ is within the scope of ~~IAS 39 *Financial Instruments: Recognition and Measurement*[(c)]~~ IFRS 9 *Financial Instruments*, is measured at fair value at each reporting date~~, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income~~ and changes in fair value shall be recognised in profit or loss in accordance with that IFRS. (b) is not within the scope of ~~IAS 39 is accounted for in accordance with IAS 37 or other IFRSs as appropriate~~ IFRS 9, is measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss. [paragraph 58]	**Subsequent measurement** …
…	…	…

(a) …

(c) [Deleted] ~~In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39.~~

(d) *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, amended IFRS 3, IFRS 9, IAS 37 and IAS 39 to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.

After the Table of Concordance, one of the bullet points that describes one of the main revisions made to IFRS 3 in 2008 is amended. New text is underlined and deleted text is struck through.

Table of Concordance

…

The main revisions made in 2008 were:

- …
- Consideration transferred by the acquirer, including contingent consideration, must be measured and recognised at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as liabilities are recognised in ~~accordance with IAS 39, IAS 37 or other IFRSs, as appropriate~~ profit or loss (rather than by adjusting goodwill). The disclosures required to be made in relation to contingent consideration were enhanced.
- …

The following footnote is added after "… by adjusting goodwill)" in the same bullet point.

Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013, amended IFRS 3, IFRS 9, IAS 37 and IAS 39 to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.

Amendments to HKFRS 8 *Operating Segments*

Paragraphs 22 and 28 are amended and paragraph 36C is added. New text is underlined and deleted text is struck through.

General information

22 An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated);~~, and~~

(aa) the judgements made by management in applying the aggregation criteria in paragraph 12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and

(b) types of products and services from which each reportable segment derives its revenues.

…

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) ...

(c) the total of the reportable segments' assets to the entity's assets if the segment assets are reported in accordance with paragraph 23.

(d) ...

Transition and effective date

…

36C *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraphs 22 and 28. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendment to the Basis for Conclusions on IFRS 8 *Operating Segments*

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC30A–BC30B and BC35B and their related headings are added.

Aggregation of operating segments

BC30A The Board received a request to consider including a disclosure in paragraph 22 that would require a description of the operating segments that have been aggregated and the economic indicators that have been assessed to decide whether operating segments have 'similar economic characteristics' in accordance with paragraph 12. The Board observed that:

(a) paragraph 12 does not elaborate upon the meaning of "similar economic characteristics" except to say that operating segments that share similar economic characteristics would be expected to exhibit a similar long term financial performance. In addition, determining whether operating segments have similar economic characteristics requires the use of judgement.

(b) paragraph 22(a) currently contains a requirement to disclose the factors used to identify the entity's reportable segments, including the basis of organisation, and suggests, as an example, disclosing whether operating segments have been aggregated. However, there is no explicit, or indeed apparent, requirement in paragraph 22(a) to disclose the aggregation of operating segments.

BC30B The Board noted that the disclosure is complementary to the information required by paragraph 22(a). The Board thinks that including a disclosure requirement in paragraph 22 would provide users of financial statements with an understanding of the judgements made by management on how (and the reasons why) operating segments have been aggregated. The judgements made by management may relate to the application of any of the criteria in paragraph 12, which states that two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of IFRS 8, the segments have similar economic characteristics and the segments are similarly based on the factors listed in paragraph 12(a)–(e). Consequently, the Board added paragraph 22(aa) to complement the disclosure required in paragraph 22(a). The requirements in paragraph 22(b) remain the same and its wording has not been modified.

…

Reconciliation of segment assets

BC35B The Board received a request to clarify in paragraph 28(c) that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be disclosed if that amount is regularly provided to the chief operating decision maker. This clarification would make this paragraph consistent with paragraphs 23 and 28(d). The Board agreed with the request and decided to modify paragraph 28(c) to achieve this.

Amendment to the Basis for Conclusions on IFRS 13 *Fair Value Measurement*

Paragraph BC138A and its related heading are added.

Short-term receivables and payables

BC138A After issuing IFRS 13, the IASB was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of paragraphs B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The IASB did not intend to change the measurement requirements for those short-term receivables and payables, noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.

Consequential amendments to other IFRSs resulting from the amendment to IFRS 13

Amendment to the Basis for Conclusions on IFRS 9 *Financial Instruments* (issued in November 2010)

The footnote to the heading above paragraph BCZ5.1 is amended. New text is underlined.

IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence paragraphs 5.4.1–5.4.3 and B5.4.1–B5.4.13 of IFRS 9 have been deleted. <u>*Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, added paragraph BC138A to the Basis for Conclusions on IFRS 13 to clarify the IASB's reason for deleting paragraph B5.4.12.</u>

Amendment to the Basis for Conclusions on IAS 39 *Financial Instruments: Recognition and Measurement*

The footnote to paragraph BC95 is amended. New text is underlined.

IFRS 13, issued in May 2011, contains the requirements for measuring fair value. As a consequence in Appendix A of IAS 39 paragraphs AG69–AG75, AG76A–AG79 and AG82 have been deleted and paragraphs AG76, AG80 and AG81 have been amended. <u>*Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, added paragraph BC138A to the Basis for Conclusions on IFRS 13 to clarify the IASB's reason for deleting paragraph AG79.</u>

Amendment to
HKAS 16 *Property, Plant and Equipment*

Paragraph 35 is amended and paragraphs 80A and 81H are added. New text is underlined and deleted text is struck through.

Revaluation model

…

35 When an item of property, plant and equipment is revalued, ~~any accumulated depreciation~~ the carrying amount of that asset is adjusted to the revalued amount. A~~a~~t the date of the revaluation, the asset is treated in one of the following ways:

(a) ~~restated proportionately~~ the gross carrying amount is adjusted in a manner that is consistent with the ~~change in the gross carrying amount of the asset so that~~ 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 ~~after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its replacement cost (see HKFRS 13).~~

(b) the accumulated depreciation is eliminated against the gross carrying amount of the asset. ~~and the net amount restated to the revalued amount of the asset. This method is often used for buildings.~~

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

…

Transitional provisions

…

80A Paragraph 35 was amended by *Annual Improvements to HKFRSs 2010–2012 Cycle*. An entity shall apply that amendment to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. 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 presented on a different basis and explain that basis.

Effective date

…

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.

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

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC25A–BC25J and their related heading are added.

Revaluation method—proportionate restatement of accumulated depreciation when an item of property, plant and equipment is revalued

BC25A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC25B Paragraph 35(a) required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation is restated proportionately with the change in the gross carrying amount.

BC25C The submission noted that applying the same proportionate factor to restate the accumulated depreciation as for the change in the gross carrying amount has caused problems in practice if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. The submission used an example in which both the gross carrying amount and the carrying amount were revalued.

BC25D In such cases, divergent views existed as to how to calculate the accumulated depreciation when the item of property, plant and equipment is revalued:

(a) some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and that paragraph 35(a) should be amended accordingly.

(b) others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between the amount required for a proportionate restatement of the depreciation and the actual restatement of the depreciation required for the gross carrying amount to result in a carrying amount equal to the revalued amount being treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC25E The definition of 'carrying amount' in paragraph 6 is "the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss". The Board noted that, when revaluing an item of property, plant and equipment, the definition implies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount, after taking into account accumulated impairment losses.

BC25F The Board agrees with the proponents of the view presented in paragraph BC25D(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The Board noted that the accumulated depreciation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. It was noted that this was the case regardless of whether there had been a re-estimation of residual value, the useful life or the depreciation method in a prior period.

BC25G For example, when the revalued amounts for the gross carrying amount and the carrying amount both reflect non-proportionate observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order for the carrying amount to equal the gross carrying amount less any accumulated depreciation and accumulated impairment losses. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of carrying amount.

BC25H In addition, the Board noted that the second sentence in paragraph 35(a) reinforced that inconsistency because it states that proportionate restatement is often used when an asset is revalued by means of applying an index to determine its replacement cost. It reinforced the inconsistency because the determination of the accumulated depreciation does not depend on the selection of the valuation technique used for the revaluation under the revaluation model for property, plant and equipment.

BC25I Consequently, the Board decided to:

(a) amend paragraph 35(a) to state that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount;

(b) amend paragraph 35(a) to state that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; and

(c) delete the references to valuation methods in paragraph 35(a)–(b).

The Board also decided to amend paragraph 35(b) to be consistent with the wording used in those amendments.

BC25J The Board decided to include wording in paragraph 35(a) to require an entity to take into account accumulated impairment losses when adjusting the depreciation on revaluation. This was to ensure that when future revaluation increases occur, the correct split, in accordance with paragraph 39 of IAS 16 and paragraph 119 of IAS 36 *Impairment of Assets*, is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

The footnote to the heading above paragraph BC35A is amended. Deleted text is struck through.

Paragraphs BC35A–BC35F were added as a consequence of amendments to IAS 16 by *Improvements to IFRSs* issued in May 2008. At the same time, the Board also amended paragraph 6 by replacing the term ‘net selling price’ in the definition of ‘recoverable amount’ with ‘fair value less costs to sell’ for consistency with the wording used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 ~~*Impairment of Assets*~~.

Paragraph BC36A is added.

Transitional provisions

…

BC36A *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, amended paragraph 35. The Board also decided that the amendment should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments and in the immediately preceding annual period. The Board was concerned that the costs of full retrospective application might outweigh the benefits.

Amendment to HKAS 24 *Related Party Disclosures*

Paragraph 9 is amended and paragraphs 17A, 18A and 28C are added. New text is underlined.

Definitions

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

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) …

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) …

(viii) <u>**The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.**</u>

…

All entities

…

<u>**17A**</u> <u>**If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity's employees or directors.**</u>

18 …

<u>**18A**</u> <u>**Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.**</u>

…

Effective date and transition

…

28C *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 9 and added paragraphs 17A and 18A. 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.

Amendment to the Basis for Conclusions on IAS 24 *Related Party Disclosures*

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC50–BC52 and their related heading are added.

Key management personnel

BC50 The Board was asked to address the identification and disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity. The Board understood that divergence existed because some reporting entities do not identify this as a related party transaction. Of those who do identify this as a related party transaction, some reporting entities would disclose the compensation paid by the management entity to those employees or directors of the management entity that act as key management personnel of the reporting entity. Other reporting entities would disclose the service fee that is paid or payable to the management entity, which is incurred by the reporting entity.

BC51 The Board noted that IAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity. To address the diversity in disclosures that has arisen from IAS 24 being unclear, the Board decided to amend the definition of 'related party'. The amendment clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party of the reporting entity. In discussing these proposals, the Board acknowledged that the relationship between the management entity and the reporting entity is not symmetrical. The reporting entity is not a related party of the management entity solely as a consequence of being a customer of the management entity. The reporting entity cannot affect the management entity's activities, financial position or profit except through some other relationship. Consequently, the reporting entity is required to disclose the amount incurred for the service fee paid or payable to the management entity that employs, or has as directors, the persons that provide the key management personnel services. As a result of identifying the management entity as a related party of the reporting entity, the Board noted that the reporting entity is also required to disclose other transactions with the management entity, for example, loans, under the existing disclosure requirements of IAS 24 with respect to related parties.

BC52 The Board was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees. The Board therefore decided to provide relief so that the reporting entity is not required to disclose the components of compensation to key management personnel that is paid through another entity. Instead, amounts incurred in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, shall be disclosed in accordance with paragraph 18A.

Amendment to
HKAS 38 *Intangible Assets*

Paragraph 80 is amended and paragraphs 130H–130I are added. New text is underlined and deleted text is struck through.

Revaluation model

…

80 ~~If~~ When an intangible asset is revalued, ~~any accumulated amortisation~~ the carrying amount of that asset is adjusted to the revalued amount. A~~a~~t the date of the revaluation, the asset is ~~either~~ treated in one of the following ways:

(a) ~~restated proportionately~~ the gross carrying amount is adjusted in a manner that is consistent with the ~~change in the gross carrying amount of the asset so that~~ 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 amortisation 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 ~~after revaluation equals its revalued amount~~; or

(b) the accumulated amortisation is eliminated against the gross carrying amount of the asset. ~~and the net amount restated to the revalued amount of the asset.~~

The amount of the adjustment of accumulated amortisation forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs 85 and 86.

…

Transitional provisions and effective date

…

130H *Annual Improvements to HKFRSs 2010–2012 Cycle*, issued in January 2014, amended paragraph 80. 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.

130I An entity shall apply the amendment made by *Annual Improvements to HKFRSs 2010–2012 Cycle* to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. 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 presented on a different basis and explain that basis.

Amendment to the Basis for Conclusions on IAS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the amendment.

Paragraphs BC77A–BC77E and BC100A and their related heading are added.

Revaluation method—proportionate restatement of accumulated amortisation when an intangible asset is revalued

BC77A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC77B The reasons for making the change are further explained in paragraphs BC25A–BC25G of IAS 16.

BC77C The Board noted that the issue in paragraphs BC25A–BC25G of IAS 16 regarding accumulated depreciation upon revaluation could also occur when revaluing an intangible asset under IAS 38, because both IAS 16 and IAS 38 have the same requirements for accumulated depreciation/amortisation when revaluing items of property, plant and equipment/intangible assets. Differences in the revaluation models for items of property, plant and equipment and intangible assets do not result in different models for restating accumulated depreciation/amortisation. For example, IAS 38 requires that the fair value of an intangible asset is measured by reference to an active market. Otherwise, the revaluation model cannot be applied. However, IAS 38 requires fair value measurement by reference to an active market only for the carrying amount of an intangible asset in contrast to its gross carrying amount.

BC77D Consequently, the Board decided to amend paragraph 80(a) to state that:

(a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount; and

(b) the accumulated amortisation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The Board also decided to amend paragraph 80(b) to be consistent with the wording used in those amendments.

BC77E The Board decided to include wording in paragraph 80(a) to require an entity to take into account accumulated impairment losses when adjusting the amortisation on revaluation. This was to ensure that when future revaluation increases occur, the correct split according to paragraph 85 of IAS 38 and paragraph 119 of IAS 36 is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

…

Revaluation method—proportionate restatement of accumulated amortisation when an intangible asset is revalued

BC100A *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, amended paragraph 80. The Board also decided that the amendment should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendment and in the immediately preceding annual period. The Board was concerned that the costs of full retrospective application might outweigh the benefits.

Hong Kong Financial Reporting Standard

Annual Improvements to HKFRSs 2011-2013 Cycle

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

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CONTENTS

Introduction

This document sets out amendments to Hong Kong Financial Reporting Standards (HKFRSs) and the related Bases for Conclusions and guidance made in response to the International Accounting Standards Board's Annual Improvements process.

These amendments result from proposals that were contained in the Exposure Draft of *Annual Improvements to HKFRSs 2011–2013 Cycle* published in November 2012.

The Annual Improvements process provides a vehicle for making non-urgent but necessary amendments to HKFRSs.

The effective date of each amendment is included in the HKFRSs affected.

Standards addressed

The following table shows the topics addressed by these amendments.

Standard	Subject of amendment
HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*	Meaning of ‘effective HKFRSs’.
HKFRS 3 *Business Combinations*	Scope exceptions for joint ventures.
HKFRS 13 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception).
HKAS 40 *Investment Property*	Clarifying the interrelationship between HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property.

Amendment to the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*

A footnote is added to paragraph BC11 and paragraph BC11A is added. New text is underlined.

Current version of IFRSs

BC11 Paragraphs 7–9 of the IFRS require a first-time adopter to apply the current version of IFRSs, without considering superseded or amended versions.[1] This:

(a) ...

BC11A Paragraph 7 requires an entity to use the IFRSs that are effective at the end of its first IFRS reporting period. Paragraph 8 allows a first-time adopter to apply a new IFRS that is not yet mandatory if that IFRS permits early application. Notwithstanding the advantages, set out in paragraph BC11, of applying a more recent version of an IFRS, paragraphs 7–8 permit an entity to use either the IFRS that is currently mandatory or the new IFRS that is not yet mandatory, if that new IFRS permits early application. Paragraph 7 requires an entity to apply the same version of the IFRS throughout the periods covered by the entity's first IFRS financial statements. Consequently, if a first-time adopter chooses to early apply a new IFRS, that new IFRS will be applied throughout all the periods presented in its first IFRS financial statements on a retrospective basis, unless IFRS 1 provides an exemption or an exception that permits or requires otherwise.

[1] *Annual Improvements Cycle 2011–2013* clarified that this paragraph does not require an entity to use a more recent version of an IFRS. It only explains the advantages of applying a more recent version of an IFRS. See paragraph BC11A for further details.

Amendment to HKFRS 3 *Business Combinations*

Paragraph 2 is amended and paragraph 64I is added. New text is underlined and deleted text is struck through.

Scope

2 This HKFRS applies to a transaction or other event that meets the definition of a business combination. This HKFRS does not apply to:

(a) the accounting for the formation of a ~~joint venture~~ joint arrangement in the financial statements of the joint arrangement itself.

(b) ...

Effective date

...

64I *Annual Improvements Cycle 2011–2013* issued in January 2014 amended paragraph 2(a). An entity shall apply that amendment prospectively 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.

Amendment to the Basis for Conclusions on IFRS 3 *Business Combinations*

After paragraph BC61 a subheading and paragraphs BC61A–BC61E are added. After paragraph BC434D a heading and paragraph BC434E are added.

Joint ventures and combinations of entities under common control

...

Annual Improvements Cycle 2011–2013

BC61A The IASB observed that there was uncertainty about whether paragraph 2(a) of IFRS 3, which excludes the formation of joint ventures from the scope of IFRS 3, should have been amended to refer to joint arrangements when IFRS 11 was issued. IFRS 11 had changed the use of the term 'joint venture' from having a general meaning that included 'jointly controlled operations', 'jointly controlled assets' and 'jointly controlled entities', to meaning a specific type of joint arrangement, which does not include 'joint operations'. The IASB did not change the wording of the scope exclusion in paragraph 2(a) of IFRS 3 for 'the formation of a joint venture' when it replaced IAS 31 with IFRS 11 *Joint Arrangements*, although it had not intended to change the scope of IFRS 3.

BC61B There was also uncertainty about whether the scope exclusion in paragraph 2(a) of IFRS 3 addresses:

(a) the accounting by the joint arrangements themselves in their financial statements only; or also

(b) the accounting by the parties to the joint arrangement for their interests in the joint arrangement.

BC61C The IASB noted that paragraph 2(a) of IFRS 3 should exclude formations of every type of joint arrangement (ie joint ventures and joint operations) from the scope of IFRS 3. It also noted that paragraph 2(a) of IFRS 3 excludes, from the scope of IFRS 3, only the accounting by the joint arrangements themselves in their financial statements.

BC61D The IASB concluded that paragraph 2(a) of IFRS 3 should be amended to address all types of joint arrangements and to remove uncertainty about the financial statements to which it applies.

BC61E Consequently, the IASB amended paragraph 2(a) of IFRS 3 to:

(a) exclude the formation of all types of joint arrangements from the scope of IFRS 3 by replacing 'joint venture' with 'joint arrangement'; and

(b) clarify that the only scope exclusion needed from the scope of IFRS 3 is the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

…

Scope exceptions for joint ventures

BC434E *Annual Improvements Cycle 2011–2013* issued in December 2013 amended paragraph 2(a) and added paragraph 64I to clarify the scope exception in paragraph 2(a) of IFRS 3. It took into consideration the transition provisions and effective date of the amendment to IFRS 3. In order to be consistent with the prospective initial application of IFRS 3, the IASB decided that an entity shall apply the amendment to IFRS 3 prospectively for annual periods beginning on or after 1 July 2014.

Amendment to
HKFRS 13 *Fair Value Measurement*

Paragraph 52 is amended and paragraph C4 is added. New text is underlined and deleted text is struck through.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

...

52 The exception in paragraph 48 applies only to financial assets, ~~and~~ financial liabilities and other contracts within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* or HKFRS 9 *Financial Instruments*. The references to financial assets and financial liabilities in paragraphs 48–51 and 53–56 should be read as applying to all contracts within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in HKAS 32 *Financial Instruments: Presentation*.

...

Appendix C
Effective date and transition

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C4 *Annual Improvements Cycle 2011–2013* issued in January 2014 amended paragraph 52. An entity shall apply that amendment for annual periods beginning on or after 1 July 2014. An entity shall apply that amendment prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Amendment to the Basis for Conclusions on IFRS 13 *Fair Value Measurement*

After paragraph BC119 a subheading and paragraphs BC119A–BC119B are added. Paragraph BC230A is added.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk

…

Scope of paragraph 52

BC119A After issuing IFRS 13, the IASB was made aware that it was not clear whether the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the ‘portfolio exception’) includes all contracts that are within the scope of IAS 39 or IFRS 9. The exception is set out in paragraph 48 and the scope of the exception is set out in paragraph 52. In particular, the IASB was asked whether the scope of the portfolio exception included contracts that are accounted for as if they were financial instruments, but that do not meet the definitions of financial assets or financial liabilities in IAS 32. Examples of such a situation would be some contracts to buy or sell a non-financial item that can be settled net in cash by another financial instrument or by exchanging financial instruments as if the contracts were financial instruments within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9.

BC119B The IASB did not intend to exclude from the scope of the portfolio exception any contracts that are within the scope of IAS 39 or IFRS 9. Consequently, the IASB amended paragraph 52 of this Standard to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.

…

Effective date and transition

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BC230A *Annual Improvements Cycle 2011–2013* issued in December 2013 amended paragraph 52 and added paragraph C4 to clarify the scope of the portfolio exception. It considered the transition provisions and effective date of the amendments to IFRS 13. It decided that an entity should apply that amendment for annual periods beginning on or after 1 July 2014. In order to be consistent with the prospective initial application of IFRS 13, the IASB decided that an entity would apply the amendment to IFRS 13 prospectively from the beginning of the annual period in which IFRS 13 was initially applied.

Amendment to HKAS 40 *Investment Property*

Before paragraph 6, a heading is added. Paragraph 14A is added. After paragraph 84 a heading and paragraphs 84A and 85D are added. Paragraphs 6 and 14 have been included for ease of reference but are not amended. New text is underlined.

<u>Classification of property as investment property or owner-occupied property</u>

6 A *property interest* that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 33–55 for the asset recognised. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 74–78.

...

14 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs 7–13. Paragraph 75(c) requires an entity to disclose these criteria when classification is difficult.

<u>14A Judgement is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of HKFRS 3 *Business Combinations*. Reference should be made to HKFRS 3 to determine whether it is a business combination. The discussion in paragraphs 7–14 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a business combination as defined in HKFRS 3. Determining whether a specific transaction meets the definition of a business combination as defined in HKFRS 3 and includes an investment property as defined in this Standard requires the separate application of both Standards.</u>

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Transitional provisions

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Cost model

...

<u>Business Combinations</u>

<u>**84A *Annual Improvements Cycle 2011–2013* issued in January 2014 added paragraph 14A and a heading before paragraph 6. An entity shall apply that amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts that amendment. Consequently, accounting for acquisitions of investment property in prior periods shall not be adjusted. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred**</u>

prior to the beginning of the first annual period occurring on or after the effective date if, and only if, information needed to apply the amendment to those earlier transactions is available to the entity.

Effective date

...

85D *Annual Improvements Cycle 2011–2013* issued in January 2014 added headings before paragraph 6 and after paragraph 84 and added paragraphs 14A and 84A. An entity shall apply those amendments for annual periods beginning on or after 1 July 2014. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendment to the Basis for Conclusions on IAS 40 *Investment Property*

After paragraph BC17 a heading and paragraphs BC18–BC22 are added.

Classification of property as investment property or owner-occupied property

Acquisition of investment property: interrelationship with IFRS 3

BC18 The IFRS Interpretations Committee (the 'Interpretations Committee') reported to the Board that practice differed in delineating the scope of IFRS 3 *Business Combinations* and IAS 40:

(a) some considered both Standards as mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired. They view property, together with any associated insignificant ancillary services, as being a single 'unit of account' and they consider this unit of account to be one asset called 'investment property'.

(b) others did not view IFRS 3 and IAS 40 as being mutually exclusive if investment property with associated insignificant ancillary services, as specified in paragraph 11 of IAS 40, is acquired; nor did they view the definitions of a business as defined in Appendix A of IFRS 3 and investment property as defined in paragraph 5 of IAS 40 as being interrelated. They think that an entity that acquires investment property has to determine whether it meets both definitions.

BC19 The Board noted that paragraphs 7–14 of IAS 40 have been developed to differentiate investment property from owner-occupied property and to define the scope of IAS 40 to distinguish it from the scope of IAS 16 *Property, Plant and Equipment*. In addition, neither IFRS 3 nor IAS 40 contains a limitation in its scope that restricts its application when the other Standard applies, ie there is nothing within the scope of each Standard to suggest that they are mutually exclusive. The Board also noted that the wording of IAS 40 is not sufficiently clear about the interrelationship between the two Standards.

BC20 The Board agreed with the proponents of the view presented in paragraph BC18(b) that IFRS 3 and IAS 40 are not mutually exclusive. It amended IAS 40 to state explicitly that judgement is also needed to determine whether the transaction is the acquisition of an asset or a group of assets or is a business combination within the scope of IFRS 3. That judgement is not based on paragraphs 7–14 of IAS 40 but is instead based on the guidance in IFRS 3. Only the judgement needed to distinguish investment property from owner-occupied property is based on those paragraphs.

BC21 Consequently, the Board clarified the interrelationship between the two Standards by adding paragraph 14A and a heading before paragraph 6 to IAS 40.

Effective date and transition

BC22 *Annual Improvements Cycle 2011–2013* issued in December 2013 added headings before paragraph 6 and after paragraph 84 and added paragraphs 14A, 84A and 85D to clarify the interrelationship between IFRS 3 and IAS 40. It considered the provisions for transition and the effective date of the amendment to IAS 40. The Board noted that applying IFRS 3 to transactions that have previously been accounted for as the acquisition of an asset or a group of assets might involve the use of hindsight when determining the fair values, at acquisition date, of the identifiable assets acquired and of the liabilities assumed as part of the business combination transaction. However, it also noted that the amendment is only a clarification of the interrelationship between IFRS 3 and IAS 40. Consequently, it decided that an entity would apply the amendments to IAS 40 prospectively for annual periods beginning on or after 1 July 2014, but an entity may choose to apply the amendment to individual transactions that occurred prior to the beginning of the first annual period occurring on or after the effective date only if the information needed is available to the entity.