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

MEMBERS' HANDBOOK

Update No. 119

(Issued 16 July 2012)

This Update contains:

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard the existing pages i to ii and replace with the new pages i to ii.	Revised contents pages
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 10 *Consolidated Financial Statements* (Standard)	Replace the cover page and pages 43-45 with revised cover page and pages 43-45. Insert pages 45A-45B after page 45.	- Note
HKFRS 10 *Consolidated Financial Statements* (Basis for Conclusions)	Replace the cover page and page 39 with revised cover page and page 39. Insert pages 39A-39B after page 39.	- Note
HKFRS 11 *Joint Arrangements* (Standard)	Replace the cover page, pages 25-27 and 29 with revised cover page, pages 25-27 and 29. Insert page 29A after page 29.	- Note
HKFRS 11 *Joint Arrangements* (Basis for Conclusions)	Replace the cover page and page 16 with revised cover page and page 16. Insert page 16A after page 16 and page 20A after page 20.	- Note

HKFRS 12 *Disclosure of Interests in Other Entities* (Standard)	Replace the cover page and page 23 with revised cover page and page 23.	- Note
HKFRS 12 *Disclosure of Interests in Other Entities* (Basis for Conclusions)	Replace the cover page and pages 25-27 with revised cover page and pages 25-27.	- Note

Note:

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements* and HKFRS 12 *Disclosure of Interests in Other Entities*) clarify the transition guidance in HKFRS 10.

The amendments also provide additional transition relief in HKFRS 10, HKFRS 11 and HKFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The effective date of the amendments is annual periods beginning on or after 1 January 2013, which is aligned with the effective date of HKFRS 10, 11 and 12.

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(Updated to July 2012)

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~~Issued June 2011~~Revised July 2012

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Appendix C
Effective date and transition

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

Effective date

C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this HKFRS earlier, it shall disclose that fact and apply HKFRS 11, HKFRS 12, HKAS 27 *Separate Financial Statements* and HKAS 28 (as amended in 2011) at the same time.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraphs C2–C6 and added paragraphs C2A–C2B, C4A–C4C, C5A and C6A–C6B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 10 for an earlier period, it shall apply those amendments for that earlier period.

Transition

C2 An entity shall apply this HKFRS retrospectively, in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs ~~C3~~C2A–C6.

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

C2B For the purposes of this HKFRS, the date of initial application is the beginning of the annual reporting period for which this HKFRS is applied for the first time.

C3 ~~When applying this HKFRS for the first time~~At the date of initial application, an entity is not required to make adjustments to the previous accounting for its involvement with either:

(a) entities that ~~were previously~~would be consolidated at that date in accordance with HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation—Special Purpose Entities* and~~,~~ are still consolidated in accordance with this HKFRS~~, continue to be consolidated~~; or

(b) entities that ~~were previously unconsolidated~~would not be consolidated at that date in accordance with HKAS 27 and HK(SIC)-Int 12 and~~,~~ are not consolidated in accordance with this HKFRS~~, continue not to be consolidated~~.

C4 ~~When application of this HKFRS for the first time results in~~ If, at the date of initial application, an investor concludes that it shall consolidate~~consolidating~~ an investee that was not consolidated in accordance with HKAS 27 and (HK)SIC-Int 12, the investor shall:

(a) if the investee is a business (as defined in HKFRS 3 *Business Combinations*), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee ~~on the date of initial application~~ as if that investee had been consolidated (and thus had applied acquisition accounting in accordance with HKFRS 3) from the date when the investor obtained control of that investee on the basis of the requirements of this HKFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee.

(b) if the investee is not a business (as defined in HKFRS 3), measure the assets, liabilities and non-controlling interests in that previously unconsolidated investee ~~on the date of initial application~~ as if that investee had been consolidated (applying the acquisition method as described in HKFRS 3 but without recognising any goodwill for the investee) from the date when the investor obtained control of that investee on the basis of the requirements of this HKFRS. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that control was obtained is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, a ~~A~~ny difference between:

(i) the amount of assets, liabilities and non-controlling interests recognised; and

(ii) the previous carrying amount of the investor's involvement with the investee.

~~shall be recognised as a corresponding adjustment to the opening balance of equity.~~

~~(c)~~C4A ~~i~~If measuring an investee's assets, liabilities and non-controlling interest in accordance with paragraph C4(a) or (b) is impracticable (as defined in HKAS 8), ~~the~~ an investor shall:

~~(i)~~(a) if the investee is a business, apply the requirements of HKFRS 3 as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which application of ~~HKFRS 3~~paragraph C4(a) is practicable, which may be the current period.

~~(ii)~~(b) if the investee is not a business, apply the acquisition method as described in HKFRS 3 but without recognising any goodwill for the investee as of the deemed acquisition date. The deemed acquisition date shall be the beginning of the earliest period for which the application of ~~this~~ paragraph C4(b) is practicable, which may be the current period.

~~The investor shall recognise any difference between~~ The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the deemed acquisition date is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(c) the amount of assets, liabilities and non-controlling interests recognised ~~at the deemed acquisition date~~ ; and

(d) ~~any previously recognised~~ the previous carrying amount~~s from its~~ of the investor's involvement with the investee. ~~as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with HKAS 8.~~

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

C4B When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this HKFRS is later than the effective date of HKFRS 3 as revised in 2008 (HKFRS 3 (2008)), the reference to HKFRS 3 in paragraphs C4 and C4A shall be to HKFRS 3 (2008). If control was obtained before the effective date of HKFRS 3 (2008), an investor shall apply either HKFRS 3 (2008) or HKFRS 3 (issued in 2004).

C4C When an investor applies paragraphs C4–C4A and the date that control was obtained in accordance with this HKFRS is later than the effective date of HKAS 27 as revised in 2008 (HKAS 27 (2008)), an investor shall apply the requirements of this HKFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A. If control was obtained before the effective date of HKAS 27 (2008), an investor shall apply either:

(a) the requirements of this HKFRS for all periods that the investee is retrospectively consolidated in accordance with paragraphs C4–C4A; or

(b) the requirements of the version of HKAS 27 issued in 2004 (HKAS 27 (2004)) for those periods prior to the effective date of HKAS 27 (2008) and thereafter the requirements of this IFRS for subsequent periods.

C5 ~~When application of this HKFRS for the first time results in~~If, at the date of initial application, an investor concludes that it will no longer ~~consolidating~~ consolidate an investee that was consolidated in accordance with HKAS 27 ~~(as amended in 2008)~~ and HK(SIC)-Int 12, the investor shall measure its ~~retained~~ interest in the investee ~~on the date of initial application~~ at the amount at which it would have been measured if the requirements of this HKFRS had been effective when the investor became involved with (but did not obtain control in accordance with this HKFRS), or lost control of, the investee. The investor shall adjust retrospectively the annual period immediately preceding the date of initial application. When the date that the investor became involved with (but did not obtain control in accordance with this HKFRS), or lost control of, the investee is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(a) the previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) the recognised amount of the investor's interest in the investee.

C5A If measuring~~measurement of~~ the ~~retained~~ interest in the investee in accordance with paragraph C5 is impracticable (as defined in HKAS 8), ~~the~~an investor shall apply the requirements of this HKFRS ~~for accounting for a loss of control~~ at the beginning of the earliest period for which application of ~~this HKFRS~~paragraph C5 is practicable, which may be the current period. ~~The investor shall recognise any difference between~~ The investor shall adjust retrospectively the annual period immediately preceding the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. When the date that the investor became involved with (but did not obtain control in accordance with this HKFRS), or lost control of, the investee is earlier than the beginning of the immediately preceding period, the investor shall recognise, as an adjustment to equity at the beginning of the immediately preceding period, any difference between:

(a) the ~~previously recognised~~ previous carrying amount of the assets, liabilities and non-controlling interests; and

(b) the ~~carrying~~ recognised amount of the investor's ~~involvement with~~interest in the investee. ~~as an adjustment to equity for that period. In addition, the investor shall provide comparative information and disclosures in accordance with HKAS 8.~~

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

C6 Paragraphs 23, 25, B94 and B96–B99 were amendments to HKAS 27 made in 2008 that were carried forward into HKFRS 10. Except when an entity applies paragraph C3, or is required to apply paragraphs C4–C5A, the entity shall apply the requirements in those paragraphs as follows:

(a) An entity shall not restate any profit or loss attribution for reporting periods before it applied the amendment in paragraph B94 for the first time.

(b) The requirements in paragraphs 23 and B96 for accounting for changes in ownership interests in a subsidiary after control is obtained do not apply to changes that occurred before an entity applied these amendments for the first time.

(c) An entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before it applied the amendments in paragraphs 25 and B97–B99 for the first time. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before the amendments in paragraphs 25 and B97–B99 were applied for the first time.

References to the 'immediately preceding period'

C6A Notwithstanding the references to the annual period immediately preceding the date of initial application (the 'immediately preceding period') in paragraphs C4–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C4–C5A shall be read as the 'earliest adjusted comparative period presented'.

C6B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

References to HKFRS 9

C7 If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference in this HKFRS to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement.*

Withdrawal of other HKFRSs

C8 This HKFRS supersedes the requirements relating to consolidated financial statements in HKAS 27 (as amended in 2008).

C9 This HKFRS also supersedes HK(SIC)-Int 12 *Consolidation—Special Purpose Entities*.

HKFRS 10 BC
~~Issued June 2011~~Revised July 2012

Basis for Conclusions on
Hong Kong Financial Reporting Standard 10

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Transition

BC195 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that retrospective application results in the most useful information to users because the information presented for all periods is comparable.

BC196 In reaching its conclusions, the Board observed that IFRS 10 might result in an investor consolidating investees that were not previously consolidated or not consolidating investees that were previously consolidated. If an investor is required to consolidate a previously unconsolidated investee and has been accounting for its investment in that investee using proportionate consolidation or the equity method, the Board noted that the investor would often have the information available to consolidate the investee retrospectively as if IFRS 10 had always been in place. This is also likely to be the case if an investor no longer consolidates an investee that it previously consolidated but would now have to account for its investment in the investee using the equity method.

BC196A IFRS 3 *Business Combinations* was initially issued in 2004 and was then substantially revised in 2008. Those revisions apply prospectively. The Board noted that, when developing the transition guidance in paragraphs C4–C4A, it had not specified which version of IFRS 3 should be used when an investor concludes that it shall consolidate an investee that was not previously consolidated and over which control was obtained before the effective date of IFRS 3 (revised in 2008). Applying the current version of IFRS 3 in such cases may provide more comparable information.

BC196B However, as noted in BC196, if an investor has been accounting for its investment in such an investee using proportionate consolidation or the equity method, it will have already identified the fair values, goodwill and other amounts required to apply IFRS 3 (issued in 2004). Allowing investors to use existing information in such cases reduces the risk of using hindsight and may provide a more reliable basis for consolidation. Consequently, if control was obtained before the effective date of IFRS 3 (2008), the Board decided to allow entities to use either IFRS 3 (2008) or IFRS 3 (2004) in applying the transition requirements.

BC196C Similarly, IAS 27 *Consolidated and Separate Financial Statements*, as issued in 2003, was substantially revised in 2008. Those revisions apply prospectively. The requirements of IAS 27 (revised in 2008) have been carried forward into IFRS 10. For the same reasons as those described in BC196A–BC196B relating to IFRS 3, if control was obtained before the effective date of IAS 27 (2008), the Board also decided to allow entities to use either IAS 27 (2008) or IAS 27 (2003) in applying the transition requirements.

BC197 ~~However,~~In addition, the Board acknowledged that retrospective application of IFRS 10 may not be practicable in some circumstances. If an investor on initial application of IFRS 10 consolidates an investee it previously did not consolidate and it is impracticable to apply the provisions of IFRS 10 retrospectively, the reporting entity would apply the acquisition method in IFRS 3 with the acquisition date being the beginning of the earliest period for which application of those requirements is practicable (goodwill would not be recognised for an investee that is not a business).

BC198 If an investor on initial application of IFRS 10 ceases to consolidate an investee that was previously consolidated, the investor measures its retained interest in the investee on the date of initial application, at the amount at which the interest would have been measured if the requirements of IFRS 10 had been effective when the investor first became involved with (but did not obtain control in accordance with this IFRS), or lost control of, the investee. If, in accordance with IFRS 10, the investor never obtained control, then it would eliminate the previous consolidation from the date that it first became involved with the investee and account for that interest in accordance with other IFRSs as applicable. Alternatively, the investor may have obtained control in accordance with both IAS 27 and IFRS 10, but then later lost control in accordance with IFRS 10 but not IAS 27. In this case, the investor would cease to consolidate from the date control was lost as defined by IFRS 10. If measurement of the retained interest at the date the investor first became involved with (but did not obtain control in accordance with this IFRS), or lost control of, the investee is impracticable, the investor would apply the requirements in IFRS 10 for accounting for a loss of control at the beginning of the earliest period for which application of those requirements is practicable. The earliest period may be the current period.

BC199 As stated in paragraph BC192, respondents to the Request for Views also commented on the transition requirements of the IFRSs to be issued in 2011. In relation to the transition requirements relating to consolidation, the Board noted that the majority of the respondents to the Request for Views had agreed with limited retrospective application for IFRS 10.

BC199A The Board identified a need to clarify the transition guidance that was intended to achieve limited retrospective application of IFRS 10. The Board noted that the main intention when issuing IFRS 10 was to ensure consistent accounting for transactions when IFRS 10 was applied for the first time (ie 1 January 2013 for a calendar-year entity, assuming no early application). In other words, the intention was to use the date of initial application as the point at which to determine the interests that should be accounted for in accordance with IFRS 10. The Board also noted that the intention was to provide transition relief if the consolidation conclusion would be the same whether applying IAS 27/SIC-12 or IFRS 10 at the date that IFRS 10 was applied for the first time. The Board concluded that, in those situations, the incremental benefit to users of applying IFRS 10 retrospectively would not outweigh the costs.

BC199B Consequently, the Board confirmed that the 'date of initial application' means the beginning of the annual reporting period for which IFRS 10 is applied for the first time. The Board amended the transition guidance to confirm that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same whether applying IAS 27/SIC-12 or IFRS 10. In making this clarification, the Board confirmed that the transition relief in paragraph C3(b) would also apply to interests in investees that were disposed of before the date of initial application of IFRS 10, (ie 1 January 2013 for a calendar-year entity, assuming no early application).

BC199C In clarifying how an entity should retrospectively adjust its comparative information on initial application of IFRS 10, the Board acknowledged that presenting all adjusted comparatives would be burdensome for preparers in jurisdictions where several years of comparatives are required. Without changing the requirement to apply the recognition and measurement requirements of IFRS 10 retrospectively, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.

BC199D The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the consolidation conclusion on transition to IFRS 10 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the consolidation conclusion to only the annual period immediately preceding the date of initial application. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

BC199E The Board considered whether IFRS 1 *First-time Adoption of Financial Reporting Standards* should be amended to allow first-time adopters to use the transition guidance of IFRS 10. It was noted that some respondents to the exposure draft had commented that, particularly when an investee is disposed of or control is lost during the comparative period, the cost of providing temporary consolidation information is not justified. The Board noted that this raised broader issues with the application of IFRS 1 and, rather than address this issue in the context of clarifying IFRS 10 transition relief, it would be more appropriately addressed in the context of IFRS 1 itself.

Transitional provisions (2008 amendments)

BCZ200 To improve the comparability of financial information across entities, amendments to IFRSs are usually applied retrospectively. Therefore, the Board proposed in its 2005 exposure draft to require retrospective application of the amendments to IAS 27, on the basis that the benefits of retrospective application outweigh the costs. However, in that exposure draft the Board identified two circumstances in which it concluded that retrospective application would be impracticable:

(a) accounting for increases in a parent's ownership interest in a subsidiary that occurred before the effective date of the amendments. Therefore, the accounting for any previous increase in a parent's ownership interest in a subsidiary before the effective date of the amendments should not be adjusted.

HKFRS 11
~~Issued June 2011~~Revised July 2012

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 11

Joint Arrangements

Hong Kong Institute of
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Appendix C

Effective date, transition and withdrawal of other HKFRSs

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

Effective date

C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this HKFRS earlier, it shall disclose that fact and apply HKFRS 10, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraphs C2–C5, C7–C10 and C12 and added paragraphs C1B and C12A–C12B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 11 for an earlier period, it shall apply those amendments for that earlier period.

Transition

C1B Notwithstanding the requirements of paragraph 28 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when this HKFRS is first applied, an entity need only present the quantitative information required by paragraph 28(f) of HKAS 8 for the annual period immediately preceding the first annual period for which HKFRS 11 is applied (the 'immediately preceding period'). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Transition

Joint ventures—transition from proportionate consolidation to the equity method

C2 When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

C3 The opening balance of the investment determined in accordance with paragraph C2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of HKAS 28 (as amended in 2011) to the opening balance of the investment to assess whether the investment is impaired and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. The initial recognition exception in paragraphs 15 and 24 of HKAS 12 *Income Taxes* does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.

C4 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. The entity shall disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~ and at the date at which this HKFRS is first applied.

C5 An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs C2–C6.

C6 After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with HKAS 28 (as amended in 2011).

Joint operations—transition from the equity method to accounting for assets and liabilities

C7 When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of HKAS 28 (as amended in 2011) and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

C8 An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~ on the basis of the information used by the entity in applying the equity method.

C9 Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of HKAS 28 (as amended in 2011), and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

(a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.

(b) adjusted against retained earnings at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.

C10 An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~.

C11 The initial recognition exception in paragraphs 15 and 24 of HKAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.

Transition provisions in an entity's separate financial statements

C12 An entity that, in accordance with paragraph 10 of HKAS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with HKFRS 9 shall:

(a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs C7–C9.

(b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the beginning of the ~~earliest~~ immediately preceding period ~~presented~~.

References to the 'immediately preceding period'

C12A Notwithstanding the references to the 'immediately preceding period' in paragraphs C2–C12, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C2–C12 shall be read as the 'earliest adjusted comparative period presented'.

C12B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

C13 The initial recognition exception in paragraphs 15 and 24 of HKAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation in its separate financial statements resulting from applying the transition requirements for joint operations referred to in paragraph C12.

References to HKFRS 9

C14 If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

Withdrawal of other HKFRSs

C15 This HKFRS supersedes the following HKFRSs:

(a) HKAS 31 *Interests in Joint Ventures*; and

(b) HK(SIC)-Int 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

D2 Paragraph<u>s</u> 39I ~~is~~<u>and 39S are</u> added as follows:

39I HKFRS 10 *Consolidated Financial Statements* and HKFRS 11 *Joint Arrangements*, issued in June 2011, amended paragraphs 31, B7, C1, D1, D14 and D15 and added paragraph D31. An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

<u>39S *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraph D31. An entity shall apply that amendment when it applies HKFRS 11 (as amended in July 2012).</u>

D3 Paragraph D1 is amended as follows:

D1 An entity may elect to use one or more of the following exemptions:

(a) …

(p) extinguishing financial liabilities with equity instruments (paragraph D25); ~~and~~

(q) severe hyperinflation (paragraphs D26–D30)~~.~~ <u>; and</u>

<u>(r) joint arrangements (paragraph D31).</u>

D4 After paragraph D30, a heading and paragraph D31 are added.

Joint arrangements

D31 A first-time adopter may apply the transition provisions in HKFRS 11 with the following exception<u>s:</u>~~.~~

<u>(a) When applying the transition provisions in HKFRS 11, a first-time adopter shall apply these provisions at the date of transition to HKFRS.</u>

<u>(b)</u> When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with HKAS 36 as at the ~~beginning of the earliest period presented~~<u>date of transition to HKFRS</u>, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the ~~beginning of the earliest period presented~~<u>date of transition to HKFRS</u>.

HKFRS 2 *Share-based Payment*

D5 Paragraph 63A is added as follows:

63A HKFRS 10 *Consolidated Financial Statements* and HKFRS 11, issued in June 2011, amended paragraph 5 and Appendix A. An entity shall apply those amendments when it applies HKFRS 10 and HKFRS 11.

HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

D6 Paragraph 28 is amended as follows:

> 28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss [footnote omitted] from continuing operations in the period in which the criteria in paragraphs 7–9 are no longer met. <u>Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary,</u>

HKFRS 11 BC
~~Issued June 2011~~Revised July 2012

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difference between the net amount of the assets and liabilities recognised and the investment (and any other items that formed part of the entity's net investment in the arrangement) derecognised against retained earnings at the beginning of the earliest period presented.

BC67 The Board also redeliberated the transition requirements for entities accounting for an interest in a joint operation in its separate financial statements when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. As stated in paragraph BC38, the Board observed that the parties' interests in a joint operation are recognised in their separate financial statements, resulting in no difference between what is recognised in the parties' separate financial statements and in the parties' consolidated financial statements. The Board decided that an entity should adjust any difference between the investment derecognised and the assets and liabilities recognised in respect of the entity's interest in a joint operation against retained earnings at the beginning of the earliest period presented.

BC68 The Board also considered requiring disclosures to help users of financial statements to understand the consequences of the accounting change from the equity method to accounting for assets and liabilities, and when accounting for an interest in a joint operation in the separate financial statements of an entity when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. The Board decided that in both cases, an entity should provide a reconciliation between the investment derecognised and the breakdown of the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the earliest period presented.

BC69 As stated in paragraph BC57, respondents to the Request for Views also commented on the transition requirements of the IFRSs to be issued in 2011. In relation to the transition requirements relating to the consolidation and joint arrangements IFRSs, the Board noted that the majority of the respondents to the Request for Views had agreed with the tentative decisions that the Board had previously made at the time of the consultation on the transition requirements for those IFRSs.

BC69A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board also decided to make similar amendments to the transition guidance in Appendix C to this IFRS and Appendix C to IFRS 12 *Disclosure of Interests in Other Entities* to be consistent with this decision. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.

BC69B The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the accounting for a joint arrangement on transition to IFRS 11 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the accounting for a joint arrangement to only the annual period immediately preceding the first annual period for which IFRS 11 is applied. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Summary of main changes from ED 9

BC70 The main changes from the exposure draft ED 9 are:

(a) IFRS 11 applies to all entities that have an interest in a joint arrangement. The scope exception in the exposure draft for venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, has been removed and has been recharacterised as an exemption from the requirement to measure investments in joint ventures in accordance with the equity method.

(b) IFRS 11 replaces the term 'shared decisions' introduced by ED 9 with the term 'joint control'. As in IAS 31, 'joint control' is one of the features that, along with the existence of a contractual arrangement, defines 'joint arrangements'.

(c) IFRS 11 classifies joint arrangements into two types—'joint operations' and 'joint ventures'. Each type of joint arrangement is aligned with a specific accounting requirement. ED 9 had classified joint arrangements into three types—'joint operations', 'joint assets' and 'joint ventures'.

Paragraph BC63M is added.

BC63M *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12), issued in June 2012, amended IFRS 11 to require the transition adjustments of that IFRS to be recognised at the beginning of the annual period immediately preceding the first annual period for which IFRS 11 is applied (the 'immediately preceding period') instead of the beginning of the earliest period presented. The Board agreed that IFRS 1 should not be amended to reflect those amendments because the adjustments required on transition to IFRS should be reflected at the date of transition, which may be earlier than the beginning of the immediately preceding period. Consequently, paragraph D31 was amended to clarify that, when a first-time adopter is applying the transition guidance of IFRS 11, they shall apply the requirements at the date of transition, which is the same as the beginning of the earliest IFRS period presented.

HKFRS 12
~~Issued June 2011~~Revised July 2012

Effective for annual periods
beginning on or after 1 January 2013

Hong Kong Financial Reporting Standard 12

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Appendix C
Effective date and transition

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

Effective date and transition

C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, added paragraphs C2A–C2B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 12 for an earlier period, it shall apply those amendments for that earlier period.

C2 An entity is encouraged to provide information required by this HKFRS earlier than annual periods beginning on or after 1 January 2013. Providing some of the disclosures required by this HKFRS does not compel the entity to comply with all the requirements of this HKFRS or to apply HKFRS 10, HKFRS 11, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) early.

C2A The disclosure requirements of this HKFRS need not be applied for any period presented that begins before the annual period immediately preceding the first annual period for which HKFRS 12 is applied.

C2B The disclosure requirements of paragraphs 24–31 and the corresponding guidance in paragraphs B21–B26 of this HKFRS need not be applied for any period presented that begins before the first annual period for which HKFRS 12 is applied.

References to HKFRS 9

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

HKFRS 12 BC
~~Issued June 2011~~Revised July 2012

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

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

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

Summary of main changes from ED 9 and ED 10

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

(a) The disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities are included in IFRS 12, separately from the accounting requirements relating to an entity's interests in those entities. ED 9 and ED 10 had proposed that the disclosure requirements would be located with the accounting requirements in IAS 28, IFRS 10 and IFRS 11. (paragraphs BC7 and BC8)

(b) IFRS 12 includes application guidance dealing with the aggregation of information disclosed in accordance with the requirements of the IFRS.

(c) IFRS 12 requires the disclosure of significant judgements and assumptions made in determining whether an entity has a special relationship (ie control, joint control or significant influence) with another entity. ED 10 had proposed disclosure of the basis of an entity's assessment of whether it controls another entity in particular scenarios. (paragraphs BC14–BC19)

(d) IFRS 12 requires the disclosure of summarised financial information for subsidiaries that have non-controlling interests that are material to the entity. ED 9 had proposed disclosing a list of significant subsidiaries. (paragraphs BC21–BC29)

(e) IFRS 12 requires disclosure of the nature of, and risks associated with, an entity's interests in consolidated structured entities. (paragraphs BC34–BC36)

(f) IFRS 12 requires the disclosure of summarised financial information for each material joint venture and associate, and requires more detailed information for joint ventures than for associates. ED 9 had proposed less detailed summarised financial information for each material joint venture and summarised financial information in aggregate for associates. (paragraphs BC47–BC52)

(g) IFRS 12 requires entities that are venture capital organisations, mutual funds, unit trusts and similar entities to provide all the disclosures relating to interests in joint ventures and associates. ED 9 proposed that such entities would be required to provide only some of the disclosures relating to interests in joint ventures and associates. (paragraphs BC59 and BC60)

(h) IFRS 12 does not require the disclosure of the reported amount of assets held by structured entities in which an entity has an interest. ED 10 had proposed disclosing such information. (paragraph BC96)

Convergence with US GAAP

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

(a) the interest that non-controlling interests have in the activities of a consolidated structured entity; and

(b) the risks from sponsoring an unconsolidated structured entity for which the entity does not provide other risk disclosures.

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

Cost-benefit considerations

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

BC124 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considers the following:

(a) the costs incurred by preparers of financial statements;

(b) the costs incurred by users of financial statements when information is not available;

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information;

(d) the benefit of better economic decision-making as a result of improved financial reporting; and

(e) the costs of transition for users, preparers and others.

BC125 The Board observed that IFRS 12 will improve the ability of users to understand consolidated financial statements by requiring disclosure of information about the interests that non-controlling interests have in the group's activities. IFRS 12 will also improve users' understanding of the special relationships that a reporting entity has with entities that are not consolidated (ie the relationships with joint arrangements, associates and unconsolidated structured entities).

BC126 In particular, an entity was not previously required to provide information specifically about its exposure to risk from interests in structured entities. The requirements in IFRS 12 relating to interests in unconsolidated structured entities respond to the conclusions of the G20 leaders and the recommendations of international bodies such as the Financial Stability Board following the global financial crisis that started in 2007. The G20 leaders and the Financial Stability Board recommended that the IASB should accelerate its work on enhancing disclosure requirements for 'off balance sheet' vehicles (such as structured investment vehicles), in particular to ensure that entities are required to disclose their exposure to risk and potential losses associated with their involvement with such vehicles.

BC127 During the development of IFRS 12, the Board consulted users of financial statements, who confirmed the benefit of having more information about:

(a) an entity's exposure to risk from interests in structured entities;

(b) non-controlling interests within the group; and

(c) joint arrangements and associates.

BC128 There are costs involved in the adoption and ongoing application of IFRS 12. Those costs will depend on the nature and complexity of the relationships that a reporting entity has with other entities. However, given the benefits for users noted in paragraphs BC125–BC127, the Board believes that the benefits of IFRS 12 outweigh the costs.