

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) – *Investment Entities: Applying the Consolidation Exception*

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MAIN FEATURES

- The amendments:
 - provide exemption for an intermediate parent of an investment entity to prepare consolidated financial statements;
 - clarify the accounting treatment of a subsidiary that provides the investment-related services or activities that related to its investment entity parent's investment activities;
 - clarify the disclosure requirement of investment entities under Hong Kong Financial Reporting Standard ("HKFRS") 12; and
 - provide exemption for a subsidiary of an investment entity from applying equity method on its associates or joint ventures as well as provide relief to non-investment entity investors in both investment entity associates and joint ventures when applying equity method.
- Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Background

The International Accounting Standards Board has issued Amendments to International Financial Reporting Standard ("IFRS") 10, IFRS 12 and International Accounting Standard ("IAS") 28 (2011) in order to introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards.

Subsequently in January 2015, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to HKFRS 10, HKFRS 12 and Hong Kong Accounting Standard ("HKAS") 28 (2011) – *Investment Entities: Applying the Consolidation Exception*, so as to maintain the convergence with IFRSs.

What are the major content of the amendments?

HKFRS 10 *Consolidated Financial Statements*

- The amendments confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity.
- Previously, an investment entity should consolidate its subsidiary only if that subsidiary provides services that relate to the investment entity's investment activities.
- The amendments now explicitly stated that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing investment-related services that relate to the investment entity's investment activities to the entity or other parties, it should consolidate that subsidiary.
- If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent should measure that subsidiary at fair value through profit or loss.

Effective date:

- The amendments will become effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.
- If an entity applies those amendments for an earlier period, it should disclose that fact.

HKFRS 12 *Disclosure of Interests in Other Entities*

- Previously, HKFRS 12 stated that it did not apply to an entity's separate financial statements without stating such applicability of HKFRS 12 to investment entities.
- The amendments now clarified that if a parent that is an investment entity and has measured all of its subsidiaries at fair value through profit or loss, that investment entity should present the disclosures relating to investment entities required by HKFRS 12 in its financial statements.
- If an investment entity has consolidated its subsidiary in which the subsidiary itself is not an investment entity and whose main purpose and activities are providing services that relate to the investment activities of its investment entity parent, the disclosure requirements in HKFRS 12 apply to financial statements in which the investment entity consolidates that subsidiary.

Effective date:

- The amendments should be applied retrospectively and will become effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.
- If an entity applies those amendments for an earlier period, it should disclose that fact.

HKAS 28 (2011) *Investments in Associates and Joint Ventures*

- The amendments confirm that the exemption from applying equity method is available to a parent entity which is also a subsidiary of an investment entity and hold interests in associates and joint ventures if it meets all the conditions stated in paragraph 4(a) of HKFRS 10.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when apply the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Effective date:

- The amendments should be applied retrospectively and will become effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.
- If an entity applies those amendments for an earlier period, it should disclose that fact.

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