

## HKFRS / IFRS Update

# HKICPA issues amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transition guidance

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### The Bottom Line

- The amendments explain that the 'date of initial application' of HKFRS 10 means the beginning of the annual reporting period in which HKFRS 10 is applied for the first time.
- The amendments clarify how a reporting entity should adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application under HKFRS 10 is different from that under HKAS 27/HK (SIC)-Int 12 ('SIC 12').
- When the control over an investee was lost during the comparative period (e.g. as a result of a disposal), the amendments confirm there is no need to retrospectively adjust the comparative figures (even though a different consolidation conclusion might have been reached under HKAS 27/ SIC 12 and HKFRS 10).
- When a reporting entity concludes, on the basis of the requirements of HKFRS 10, that it should consolidate an investee that was not previously consolidated, HKFRS 10 requires the entity to apply acquisition accounting in accordance with HKFRS 3 to measure assets, liabilities and non-controlling interests of the investee at the date when the entity obtained control of the investee. The amendments clarify which version of HKFRS 3 should be used in different scenarios.
- The amendments provide additional transitional relief by limiting the requirement to present adjusted comparative information to the period immediately before the date of initial application.
- The effective date of the amendments is the same as the effective date of HKFRS 10, HKFRS 11 and HKFRS 12 (i.e. 1 January 2013 for calendar-year entities).

## Introduction

In June 2012, the International Accounting Standards Board ('IASB') issued *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)* (the 'Amendments'). When IFRS 10, IFRS 11 and IFRS 12 were first issued in 2011, a number of issues have been raised regarding the application of the transition guidance set out in the standards. In response to the issues raised, the IASB issued the Amendments in June 2012.

In July 2012, the Hong Kong Institute of Certified Public Accountants ('HKICPA'), in maintaining full convergence between Hong Kong Financial Reporting Standards ('HKFRS') and International Financial Reporting Standards ('IFRS'), issued the same amendments.

## Amendments to HKFRS 10

### Date of initial application

HKFRS 10 requires a reporting entity to make assessment as to whether it has control over its investee(s) at the date of initial application of HKFRS 10.

The Amendments explain that the 'date of initial application of HKFRS 10' means 'the beginning of the annual reporting period in which HKFRS 10 is applied for the first time'. For example, when an entity applies HKFRS 10 for the first time for the year ending 31 December 2013, the date of initial application of HKFRS 10 is 1 January 2013.

### Transitional provisions in different scenarios

When the 'consolidation' conclusion as at the date of initial application of HKFRS 10 is the same under HKFRS 10 and HKAS 27/SIC 12 *Consolidation – Special Purpose Entities*, the reporting entity is not required to make adjustments to the previous accounting for its involvement with those investees. The 'consolidation' conclusion is the same in respect of a particular investee if it is concluded that the reporting entity has control over that investee under both HKFRS 10 and HKAS 27/SIC 12, or that the reporting entity does not have control over that investee under both HKFRS 10 and HKAS 27/SIC 12.

However, when the 'consolidation' conclusion is different under HKFRS 10 and HKAS 27/SIC 12, the reporting entity is required to follow the transitional provisions set out in HKFRS 10 and make appropriate retrospective adjustments. In this regard, the Amendments clarify a number of issues in applying the transitional provisions set out in HKFRS 10.

For illustration purposes, it is assumed that, in all the scenarios below, the reporting entity is a calendar-year entity which does not early apply HKFRS 10 (i.e. the reporting entity applies HKFRS 10 for the first time for the year ending 31 December 2013).

**Scenario 1: Beginning to consolidate an investee on the application of HKFRS 10**

If, at the date of initial application (i.e. 1 January 2013), the reporting entity concludes that it should consolidate an investee that was not previously consolidated and that the investee is a business (as defined in HKFRS 3 *Business Combinations*), the assets, liabilities and non-controlling interests of the investee should be measured as if the acquisition accounting set out in HKFRS 3 had been applied at the date when the reporting entity obtained control (determined based on the requirements of HKFRS 10). If the investee was not a business (as defined in HKFRS 3), the acquisition method, as described under HKFRS 3, should be applied but no goodwill is recognised for the investee.

The reporting entity should adjust retrospectively the comparative figures in respect of the annual period immediately preceding the date of initial application ('the immediately preceding period', which is the year ended 31 December 2012). In addition, if the date of obtaining control was concluded to be earlier than the beginning of the immediately preceding period (i.e. before 1 January 2012), any difference between the amounts of assets, liabilities and non-controlling interests of the investee recognised and the previous carrying amount of the interests in the investee should be recognised as an adjustment to equity at the beginning of the immediately preceding period (i.e. as at 1 January 2012).

The Amendments clarify which version of HKFRS 3 should be used in different situations:

- when control was determined to have been obtained after the effective date of HKFRS 3 (2008) (i.e. on or after 1 January 2010 for calendar-year entities), the reporting entity should apply HKFRS 3 (2008); and
- when control was determined to have been obtained before the effective date of HKFRS 3 (2008) (i.e. before 1 January 2010 for calendar-year entities), the reporting entity can apply either HKFRS 3 (2008) or HKFRS 3 (2004).

When it is impracticable for the reporting entity to apply HKFRS 3 retrospectively from the date control was determined to have been obtained, it should apply the requirements of HKFRS 3 as of a deemed acquisition date. The deemed acquisition date should be the beginning of the earliest period for which the application of HKFRS 3 is practicable, which may be the period in which HKFRS 10 is applied for the first time.

The reporting entity should adjust retrospectively the comparative figures in respect of the immediately preceding period, unless the deemed acquisition date is the beginning of the period in which HKFRS 10 is applied for the first time (i.e. 1 January 2013). In that situation, any adjustments should be recognised in equity at the beginning of the period in which HKFRS 10 is applied for the first time.

In addition, regarding the consolidation procedures and requirements about changes in ownership interest in an investee, the Amendments clarify the following:

- when control was determined to have been obtained *after* the effective date of HKAS 27 (2008) (i.e. on or after 1 January 2010 for calendar-year entities), the reporting entity should apply HKFRS 10 (which contains the same requirements as HKAS 27 (2008) in respect of consolidation procedures and requirements about changes in ownership interest in an investee) for all periods that the investee is retrospectively consolidated; and
- when control was determined to have been obtained *before* the effective date of HKAS 27 (2008) (i.e. before 1 January 2010 for calendar-year entities), the reporting entity should apply the requirements of HKAS 27 (2004) for those periods prior to the effective date of HKAS 27 (2008) and thereafter the requirements of HKFRS 10 for subsequent periods.

***Scenario 2: Ceasing to consolidate an investee on application of HKFRS 10***

Conversely, if, at the date of initial application (i.e. at 1 January 2013), the reporting entity concludes that it should no longer consolidate an investee that was previously consolidated, it should measure its interest in the investee at the amount at which it would have been measured if the requirements of HKFRS 10 had been effective when the reporting entity became involved with, or lost control of, the investee. Comparative figures in respect of the immediately preceding period should be adjusted retrospectively.

If the date that the reporting entity became involved with, or lost control of, the investee is earlier than the beginning of the immediately preceding period, any difference between the previous carrying amount of assets, liabilities and non-controlling interests recognised and the recognised amount of its interest in the investee would be recognised as an adjustment to equity at the beginning of the immediately preceding period.

If it is impracticable for the reporting entity to apply retrospectively the requirements of HKFRS 10 to measure the interest of the investee (see above), it should apply the requirements of HKFRS 10 at the beginning of the earliest period for which the application of HKFRS 10 is practicable, which may be the period in which HKFRS 10 is applied for the first time. Comparative figures in respect of the immediately preceding period should be adjusted retrospectively, unless the earliest period for which the application of HKFRS 10 is practicable is the period in which HKFRS 10 is applied for the first time. In that situation, any adjustments should be recognised in equity at the beginning of the period in which HKFRS 10 is applied for the first time.

**Scenario 3: Control over an investee was lost before the date of initial application of HKFRS 10**

The Amendments provide relief from making adjustments to comparative figures in respect of a situation in which control over an investee was lost before the date of initial application of HKFRS 10 (e.g. interests in the investee were disposed of before the date of initial application of HKFRS 10). In such a case, as the investee has already been disposed of by the date of initial application of HKFRS 10, it is not necessary to determine whether the investee would have been consolidated under the requirements of HKFRS 10 prior to disposal.

**Amendments to HKFRS 11 and HKFRS 12**

The amendments to HKFRS 11 also provide the relief of not requiring entities to present or to make adjustments to comparative figures for periods prior to the immediately preceding period.

In addition, the amendments to HKFRS 12 provide additional transition relief by eliminating the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which HKFRS 12 is applied (i.e. before 1 January 2013).

**Transitional relief regarding the application of HKAS 8.28(f)**

On initial application of a new or revised standard, paragraph 28(f) of HKAS 28 *Accounting Policies, Changes in Accounting Estimates and Errors* 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.

Many constituents expressed their concerns that the application of the disclosure requirements of paragraph 28(f) of HKAS 8 would be burdensome because changes in the consolidation conclusion on transition are likely to affect many line items throughout the financial statements.

Therefore, the Amendments provide additional relief by requiring entities to provide the quantitative information required by paragraph 28(f) of HKAS 8 *only for the immediately preceding period* (i.e. year ended 31 December 2012). Entities are not required to present the quantitative information required by paragraph 28(f) of HKAS 8 for the current year (i.e. year ending 31 December 2013) or for earlier comparative periods than the immediately preceding period. This relief is applicable for entities that apply HKFRS 10 and HKFRS 11 for the first time.

## Effective date of the Amendments

Entities are required to apply the Amendments for annual periods beginning on or after 1 January 2013 (i.e. same as the effective dates of HKFRS 10, HKFRS 11 and HKFRS 12).

## Contact us

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