

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 - Applying the Consolidation Exception

Introduction

The Amendments clarify the application of the consolidation exception for investment entities and its subsidiaries. The Amendments also clarify the application of the exemption from applying the equity method for entities that are subsidiaries and hold interests in associates and joint ventures. In addition, the Amendments allow an entity which is not an investment entity, but has an interest in an associate or joint venture which is an investment entity, a policy choice when applying the equity method of accounting.



Effective Date

An entity shall apply the Amendments retrospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the Amendments earlier, it shall disclose that fact.

Summary of Amendments

Amendments to HKFRS 10

One of the criteria for the exemption from preparing consolidated financial statements is that the entity's ultimate or any intermediate parent 'produces consolidated financial statements that are available for public use and comply with HKFRSs or IFRSs.' It is not clear whether the exemption is available to a parent entity that is a subsidiary of an ultimate, or intermediate, investment entity parent, if other conditions for the exemption are met, but the investment entity parent does not consolidate any of its subsidiaries. Instead, the investment entity parent prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 10.

The Amendments confirm that the exemption from preparing consolidated financial statements is also available to a parent entity that is a subsidiary of an investment entity, in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 10.

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 or activities that relate to the investment entity's investment activities to the entity or other parties, it shall consolidate that subsidiary. If the subsidiary that provides the investment-related services or activities is itself an investment entity, the investment entity parent shall measure that subsidiary at fair value through profit or loss.

Amendments to HKFRS 12

The Amendments clarify that an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 10 shall present the disclosures relating to investment entities required by HKFRS 12.

Amendments to HKAS 28

The Amendments clarify that the exemption from applying the equity method for interests in associates and joint ventures is also available to an entity that is a subsidiary of an investment entity, in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 10.

The Amendments allow that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

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