



# MEMBERS' HANDBOOK

## Update No. 208

(Issued 14 November 2017)

Amendments to HKFRS 12 *Disclosure of Interests in Other Entities* were previously set out in *Annual Improvements to HKFRSs 2014-2016 Cycle* are now incorporated into the Standards and Basis for Conclusions.

These amendments clarify the scope of HKFRS 12 and are effective for annual reporting periods beginning on or after 1 January 2017.

<b><u>Document Reference and Title</u></b>	<b><u>Instructions</u></b>	<b><u>Explanations</u></b>
<b><u>VOLUME II</u></b>		
<a href="#"><u>Contents of Volume II</u></a>	Discard existing page ii and replace with revised page ii.	Revised contents page
<b>HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)</b>		
<a href="#"><u>HKFRS 12 <i>Disclosure of Interests in Other Entities</i> (Standard)</u></a>	Replace the cover page and pages 7, 20 and 23 with revised cover page and revised pages 7, 20 and 23.	Amendments due to effective of the Amendments to HKFRS 12
<a href="#"><u>HKFRS 12 <i>Disclosure of Interests in Other Entities</i> (Basis for Conclusions)</u></a>	Replace the cover page and pages 3 and 6 with revised cover and revised pages 3 and 6. Insert pages 6A and 6B after page 6.	

		<i>Issue/(Review date)</i>
HKAS 29	<a href="#">Financial Reporting in Hyperinflationary Economies</a> .....	3/04(4/10)
HKAS 32	<a href="#">Financial Instruments: Presentation</a> .....	11/04(11/14)
HKAS 33	<a href="#">Earnings per Share</a> .....	3/04(5/14)
HKAS 34	<a href="#">Interim Financial Reporting</a> .....	10/04(12/16)
HKAS 36	<a href="#">Impairment of Assets</a> .....	8/04(1/17)
HKAS 37	<a href="#">Provisions, Contingent Liabilities and Contingent Assets</a> .....	11/04(11/16)
HKAS 38	<a href="#">Intangible Assets</a> .....	8/04(1/17)
HKAS 39	<a href="#">Financial Instruments: Recognition and Measurement</a> .....	1/06(11/16)
HKAS 40	<a href="#">Investment Property</a> .....	11/05(4/17)
HKAS 41	<a href="#">Agriculture</a> .....	12/04(1/17)
<b>HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)</b>		
HKFRS 1 Revised	<a href="#">First-time Adoption of Hong Kong Financial Reporting Standards</a> .....	12/08(1/17)
HKFRS 2	<a href="#">Share-based Payment</a> .....	4/04(11/16)
HKFRS 3 Revised	<a href="#">Business Combinations</a> .....	3/08(11/16)
HKFRS 4	<a href="#">Insurance Contracts</a> .....	3/06(01/17)
HKFRS 5	<a href="#">Non-current Assets Held for Sale and Discontinued Operations</a> .....	8/04(12/16)
HKFRS 6	<a href="#">Exploration for and Evaluation of Mineral Resources</a> .....	2/05(2/10)
HKFRS 7	<a href="#">Financial Instruments: Disclosures</a> .....	9/05(12/16)
HKFRS 8	<a href="#">Operating Segments</a> .....	3/07(12/16)
HKFRS 9	<a href="#">Financial Instruments</a> .....	11/09 (09/14)
HKFRS 9	<a href="#">Financial Instruments (Hedge Accounting)</a> .....	12/13
HKFRS 9 (2014)	<a href="#">Financial Instruments</a> .....	09/14
HKFRS 10	<a href="#">Consolidated Financial Statements</a> .....	6/11(1/17)
HKFRS 11	<a href="#">Joint Arrangements</a> .....	6/11(12/16)
HKFRS 12	<a href="#">Disclosure of Interests in Other Entities</a> .....	6/11(11/17)
HKFRS 13	<a href="#">Fair Value Measurement</a> .....	6/11(11/16)
HKFRS 14	<a href="#">Regulatory Deferral Accounts</a> .....	2/14(1/17)
HKFRS 15	<a href="#">Revenue from Contracts with Customers</a> .....	7/14(6/16)
HKFRS 16	<a href="#">Leases</a> .....	5/16
ANNUAL IMPROVEMENTS	<a href="#">Annual Improvements to HKFRSs 2014-2016 Cycle</a> .....	3/17

HKFRS 12  
Revised January–November 2017

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Effective for annual periods  
beginning on or after 1 January 2013

*Hong Kong Financial Reporting Standard 12*

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# Disclosure of Interests in Other Entities



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

## Hong Kong Financial Reporting Standard 12

### *Disclosure of Interests in Other Entities*

#### Objective

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- 1 The objective of this HKFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:
- (a) the nature of, and risks associated with, its *interests in other entities*; and
  - (b) the effects of those interests on its financial position, financial performance and cash flows.

#### Meeting the objective

- 2 To meet the objective in paragraph 1, an entity shall disclose:
- (a) the significant judgements and assumptions it has made in determining:
    - (i) the nature of its interest in another entity or arrangement;
    - (ii) the type of joint arrangement in which it has an interest (paragraphs 7–9);
    - (iii) that it meets the definition of an investment entity, if applicable (paragraph 9A); and
  - (b) information about its interests in:
    - (i) subsidiaries (paragraphs 10–19);
    - (ii) joint arrangements and associates (paragraphs 20–23); and
    - (iii) *structured entities* that are not controlled by the entity (unconsolidated structured entities) (paragraphs 24–31).
- 3 If the disclosures required by this HKFRS, together with disclosures required by other HKFRSs, do not meet the objective in paragraph 1, an entity shall disclose whatever additional information is necessary to meet that objective.
- 4 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements in this HKFRS. It shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics (see paragraphs B2–B6).

#### Scope

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- 5 This HKFRS shall be applied by an entity that has an interest in any of the following:
- (a) subsidiaries
  - (b) joint arrangements (ie joint operations or joint ventures)
  - (c) associates
  - (d) unconsolidated structured entities.
- 5A Except as described in paragraph B17, the requirements in this HKFRS apply to an entity's interests listed in paragraph 5 that are classified (or included in a disposal group that is classified) as held for sale or discontinued operations in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

- (b) the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture or associate.

B15 An entity may present the summarised financial information required by paragraphs B12 and B13 on the basis of the joint venture's or associate's financial statements if:

- (a) the entity measures its interest in the joint venture or associate at fair value in accordance with HKAS 28 (as amended in 2011); and
- (b) the joint venture or associate does not prepare HKFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

In that case, the entity shall disclose the basis on which the summarised financial information has been prepared.

B16 An entity shall disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity shall also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- (a) profit or loss from continuing operations.
- (b) post-tax profit or loss from discontinued operations.
- (c) other comprehensive income.
- (d) total comprehensive income.

An entity provides the disclosures separately for joint ventures and associates.

B17 When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 ~~Non-current Assets Held for Sale and Discontinued Operations~~, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with paragraphs B10–B16.

## **Commitments for joint ventures (paragraph 23(a))**

B18 An entity shall disclose total commitments it has made but not recognised at the reporting date (including its share of commitments made jointly with other investors with joint control of a joint venture) relating to its interests in joint ventures. Commitments are those that may give rise to a future outflow of cash or other resources.

B19 Unrecognised commitments that may give rise to a future outflow of cash or other resources include:

- (a) unrecognised commitments to contribute funding or resources as a result of, for example:
  - (i) the constitution or acquisition agreements of a joint venture (that, for example, require an entity to contribute funds over a specific period).

## 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

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- 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.
- C1B *Investment Entities* (Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)), issued in December 2012, amended paragraph 2 and Appendix A, and added paragraphs 9A–9B, 19A–19G, 21A and 25A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Early adoption is permitted. If an entity applies those amendments earlier, it shall disclose that fact and apply all amendments included in *Investment Entities* at the same time.
- C1C *Investment Entities: Applying the Consolidation Exception* (Amendments to HKFRS 10, HKFRS 12 and HKAS 28), issued in January 2015, amended paragraph 6. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.
- C1D *Annual Improvements to HKFRS Standards 2014–2016 Cycle*, issued in March 2017, added paragraph 5A and amended paragraph B17. An entity shall apply those amendments retrospectively in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2017.
- 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

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- 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*.

*Basis for Conclusions on  
Hong Kong Financial Reporting Standard 12*

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# Disclosure of Interests in Other Entities



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## **Basis for Conclusions on IFRS 12 *Disclosure of Interests in Other Entities***

HKFRS 12 is based on IFRS 12 *Disclosure of Interests in Other Entities*. In approving HKFRS 12, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IFRS 12. Accordingly, there are no significant differences between HKFRS 12 and IFRS 12. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IFRS 12 referred to below generally correspond with those in HKFRS 12.

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- BC8 The Board decided to extend the scope of IFRS 12 to interests in joint operations. A joint operation is a joint arrangement that is not necessarily structured through an entity that is separate from the parties to the joint arrangement. Therefore, an interest in a joint operation does not necessarily represent an interest in another entity. The Board decided to include disclosure requirements for joint operations in IFRS 12 because it believes that the benefits of having all disclosure requirements for joint arrangements in one place outweighs the disadvantages of including disclosure requirements about interests in joint operations in a standard that otherwise deals with an entity's interests in other entities.

### **Clarification of the scope of the Standard (amendments issued in December 2016)**

- BC8A The Board was asked to clarify the scope of IFRS 12 with respect to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph B17 states that an entity is not required to disclose summarised financial information in accordance with paragraphs B10–B16 for interests classified as held for sale. However, the requirements in paragraph 5B of IFRS 5 made it unclear whether all other requirements in IFRS 12 apply to interests in entities classified as held for sale or discontinued operations in accordance with IFRS 5.
- BC8B The Board noted that it had not intended to exempt an entity from all of the disclosure requirements in IFRS 12 with respect to interests in entities classified as held for sale or discontinued operations. The objective of IFRS 12 (ie to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on financial statements) is relevant to interests in other entities, regardless of whether they are within the scope of IFRS 5.
- BC8C Accordingly, in *Annual Improvements to IFRS Standards 2014–2016 Cycle*, the Board added paragraph 5A to clarify that, except as described in paragraph B17, the requirements in IFRS 12 apply to interests in entities within the scope of IFRS 5—ie interests that are classified (or included in a disposal group that is classified) as held for sale, held for distribution to owners in their capacity as owners, or discontinued operations. Paragraph 5A refers only to interests that are classified as held for sale or discontinued operations because the clarification was needed only for interests referred to in paragraph 5B of IFRS 5.
- BC8D A few respondents to the Board's proposals suggested that the Board consider which requirements in IFRS 12 are particularly relevant for interests in entities within the scope of IFRS 5, and specify that an entity applies only those relevant requirements.
- BC8E The Board decided not to change the proposals in this respect. Although acknowledging that some requirements in IFRS 12 might be more relevant to interests within the scope of IFRS 5 than others, the Board noted that this is also true for interests not within the scope of IFRS 5. This is because the relevance of each disclosure requirement for particular interests depends on the specific facts and circumstances relating to such interests. This is implicit in the requirements in paragraph 4, which require an entity to apply judgement in determining the amount of information to disclose about its interests in other entities to satisfy the disclosure objective.

BC8F In response to the Board's proposal to apply the amendments retrospectively, a few respondents asked the Board to consider whether to provide transition relief for interests in entities disposed of before or during the first year of application.

BC8G The Board decided not to provide such transition relief because: (a) the incremental costs of collecting data and preparing information are not expected to be significant—this is because such information is needed for disclosure before the interests are classified as held for sale or discontinued operations; and (b) it would be inconsistent with IFRS 12, which requires disclosure even when an entity no longer has any contractual involvement with another entity.

BC8H The Board decided on an effective date of 1 January 2017 for the amendments. Because the requirements in IFRS 12 generally apply only to annual financial statements, an effective date of 1 January 2017 would typically mean that the earliest an entity would be required to apply the amendments would be within financial statements for the year ended 31 December 2017. Accordingly, an effective date of 1 January 2017 provides an entity with more than a year to prepare to implement the amendments. In addition, the Board noted that the amendments are clarifying in nature.

BC8I The Board decided that an option to apply the amendments early is not necessary. This is because an entity is not prohibited from disclosing additional information.

## **The structure of IFRS 12 and the Board's deliberations**

BC9 IFRS 12 replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31, except for the disclosure requirements that apply only when preparing separate financial statements, which are included in IAS 27 *Separate Financial Statements*.

BC10 Unless otherwise stated, any references in this Basis for Conclusions to:

- (a) IAS 27 are to IAS 27 *Consolidated and Separate Financial Statements*.
- (b) IAS 28 are to IAS 28 *Investments in Associates*.
- (c) IAS 31 are to IAS 31 *Interests in Joint Ventures*.

BC11 In developing IFRS 12, the Board did not reconsider all the requirements that are included in the IFRS. The requirements in paragraphs 11, 18 and 19 relate to disclosures about some of the accounting requirements in IFRS 10 *Consolidated Financial Statements*, which were carried forward from IAS 27 to IFRS 10 without being reconsidered by the Board. Consequently, the Board did not reconsider the requirements in those paragraphs. In addition, the requirements in paragraph 22 relate to disclosures about the application of the equity method and restrictions on the ability of joint ventures and associates to transfer funds to the reporting entity. The Board did not reconsider the equity method as part of its joint ventures project. Consequently, and with the exception of its decision to align the requirements for joint ventures and associates as stated in paragraph BC6, the requirements in paragraph 22 were carried forward from IAS 28 without being reconsidered by the Board. Accordingly, when the Board approved IFRS 12 for issue, it brought forward from IAS 27 and IAS 28 without reconsideration the requirements now in paragraphs 11, 18, 19 and 22 of IFRS 12.

- BC12 When revised in 2003, IAS 27 was accompanied by a Basis for Conclusions summarising the considerations of the Board, as constituted at the time, in reaching some of its conclusions in that standard. The Basis for Conclusions was subsequently updated to reflect amendments to the standard. For convenience, the Board has incorporated into its Basis for Conclusions on IFRS 12 material from the Basis for Conclusions on IAS 27 that discusses the requirements in paragraphs 18 and 19 that the Board has not reconsidered. That material is contained in paragraphs BC37–BC41. In those paragraphs cross-references to the IFRS have been updated accordingly and minor necessary editorial changes have been made.
- BC13 As part of its consolidation project, the Board is examining how an investment entity accounts for its interests in subsidiaries, joint ventures and associates and what, if any, additional disclosures might be made about those interests. The Board expects to publish later in 2011 an exposure draft on investment entities.\*

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\* *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012, introduced an exception to the principle that all subsidiaries shall be consolidated. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss instead of consolidating those subsidiaries. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*. The amendments are discussed in paragraphs BC215-BC317 of IFRS 10 *Consolidated Financial Statements*, and the disclosure requirements are discussed in paragraphs BC61A-BC61H of this IFRS.