

Financial Reporting Update

On Consolidation and Joint Arrangement

24 January 2013



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Effective for 2012 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

Effective for periods beginning on/after

- Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* ➤ 1 Jul. 2011
- Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* ➤ 1 Jul. 2011
- Amendments of HKAS 12 *Deferred Tax: Recovery of Underlying Assets* ➤ 1 Jan. 2012

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Updated to HKICPA Update No. 124 of 27 December 2012

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Effective for 2013 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

	Effective for periods beginning on/after	
• HKFRS 10 <i>Consolidated Financial Statements</i>	➤ 1 Jan. 2013	
• HKFRS 11 <i>Joint Arrangements</i>	➤ 1 Jan. 2013	
• HKFRS 12 <i>Disclosure of Interests in Other Entities</i>	➤ 1 Jan. 2013	
• HKFRS 13 <i>Fair Value Measurement</i>	➤ 1 Jan. 2013	
• HKAS 1 (revised) <i>Presentation of Items of OCI</i>	➤ 1 Jul. 2012	
• HKAS 19 (revised) <i>Employee Benefits</i>	➤ 1 Jan. 2013	
• HKAS 27 (2011) <i>Separate Financial Statements</i>	➤ 1 Jan. 2013	
• HKAS 28 (2011) <i>Investments in Associates and Joint Ventures</i>	➤ 1 Jan. 2013	
• HK(IFRIC) – Int 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	➤ 1 Jan. 2013	
• Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	➤ 1 Jan. 2013	
• Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>	➤ 1 Jan. 2013	
• Annual Improvements 2009-2011 Cycle	➤ 1 Jan. 2013	
• Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	➤ 1 Jan. 2013	

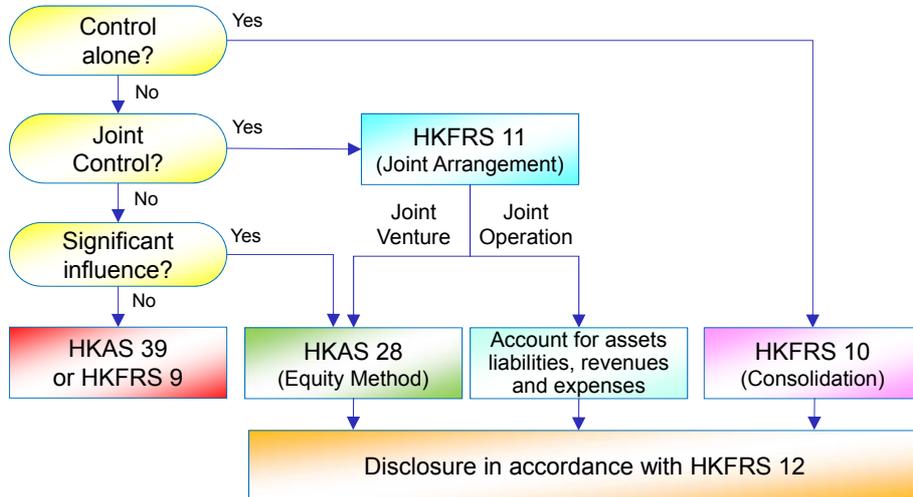
Effective after 2013 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

	Effective for periods beginning on/after	
• HKFRS 9 <i>Financial Instruments</i>	➤ 1 Jan. 2015	
• Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>	➤ 1 Jan. 2014	
• Amendments to HKFRS 9 <i>Financial Instruments and HKFRS 7 – Mandatory Effective Date of HKFRS 9 and Transition Disclosures</i>	➤ 1 Jan. 2015	
• Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) <i>Investment Entities</i>	➤ 1 Jan. 2014	

HKFRS 10, 11 and 12

Interaction between HKFRS 10, 11 & 12, & HKAS 28 & 39 (or HKFRS 9)



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The graph is adapted from the IASB

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Consolidated Financial Statements

(HKFRS 10)



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HKFRS 10 Consol. Financial Statements

Case



Quarterly Report 2012 (for 9 months ended 31.9.2012)

• Notes To The Condensed Consolidated Financial Statements (Unaudited)

- Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on
 - the concept of power, variability of returns and the ability to use power to affect the amount of returns.
- This replaces the previous approach which emphasised
 - legal control under HKAS 27 (Revised) (for companies) or
 - exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities).
- The adoption of HKFRS 10 does not have any financial impact to the Group as all subsidiaries within the Group are wholly-owned and satisfy the requirements for control under HKFRS 10.

HKFRS 10 Consol. Financial Statements

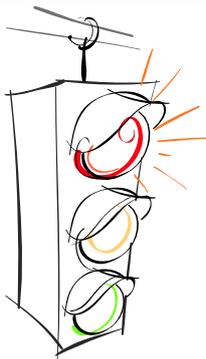
- The contents of HKFRS 10:
 - a. requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
 - b. defines the principle of control, and establishes control as the basis for consolidation;
 - c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
 - d. sets out the accounting requirements for the preparation of consolidated financial statements (HKFRS 10.2).



HKFRS 10 Consol. Financial Statements

- The IASB explains that
 - The application of IAS 27 and SIC-12 revealed inconsistent application in a number of areas:
 - Applying the definition of control: the perceived conflict of emphasis between
 - IAS 27 (power to govern financial and operating policies) and
 - SIC-12 (risks and rewards)led to inconsistent application of the definition of control for different types of entities.
 - Control without a majority of voting rights: because IAS 27 does not provide explicit guidance in this area, similar relationships between entities were being accounted for differently.
 - Agency relationships: the lack of guidance for these relationships meant that similar transactions (e.g. those involving funds or investment conduits) were being accounted for differently.
 - Instead, IFRS 10 contains a single consolidation model that identifies control as the basis for consolidation for all types of entities
 - Also providing additional application guidance, will increase consistent application in these areas.

HKFRS 10 Consol. Financial Statements



- While HKFRS 10 become effective,
 - HKAS 27 becomes “separate financial statements”
- Indicator still refers to **“control”** but the definition and assessment of control will not be the same

Scope

The IASB adding an "investment entities exemption" in October 2012 (to be discussed later)

- An entity that is a parent shall present consolidated financial statements. HKFRS 10 applies to all entities, except as follows:
 - (a) a parent need not present consolidated financial statements if it meets all the following conditions:
 - (i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
 - (ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
 - (iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
 - (iv) its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with HKFRSs or IFRSs.
 - (b) post-employment benefit plans or other long-term employee benefit plans to which HKAS 19 *Employee Benefits* applies. (HKFRS 10.4)

Control

- An investor, regardless of the nature of its involvement with an entity (the investee),
 - shall determine whether it is a parent by assessing whether it **controls** the investee. (HKFRS 10.5)
- An investor controls an investee when
 - it is exposed, or has rights, to variable returns from its involvement with the investee and
 - has the ability to affect those returns through its power over the investee. (HKFRS 10.6)



Control

- Thus, an investor controls an investee if and only if the investor has all the following:

- a. **power** over the investee;
- b. **exposure, or rights, to variable returns** from its involvement with the investee; and
- c. the **ability to use its power** over the investee to **affect** the amount of the investor's **returns** (HKFRS 10.7)

Power is defined as “existing rights that give the current ability to direct the relevant activities”

relevant activities are “activities of the investee that significantly affect the investee’s returns”

Rights include

- voting rights, potential voting rights, proportionate voting rights, substantive rights, removal rights, decision-making rights, protective rights, contractual rights



Control

- An investor shall consider all facts and circumstances when assessing whether it controls an investee.
 - The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed as above. (HKFRS 10.8)

Power

Returns

Link between
Power & Returns



Control

- Consideration of the following factors may assist in making the determination whether an investor controls an investee:
 - a. the purpose and design of the investee;
 - b. what the relevant activities are and how decisions about those activities are made;
 - c. whether the rights of the investor give it the current ability to direct the relevant activities;
 - d. whether the investor is exposed, or has rights, to variable returns from its involvement with the investee; and
 - e. whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns. (HKFRS 10.B3)

Power

Returns

Link between
Power & Returns



Control

- Two or more investors collectively control an investee when they must act together to direct the relevant activities.
 - In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee.
 - Each investor would account for its interest in the investee in accordance with the relevant HKFRSs, such as
 - HKFRS 11 *Joint Arrangements*,
 - HKAS 28 *Investments in Associates and Joint Ventures* or
 - HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement*) (HKFRS 10.8)

Power

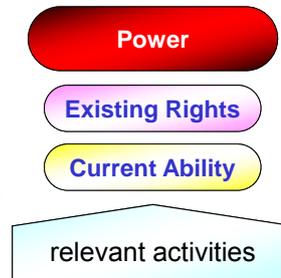
Returns

Link between
Power & Returns



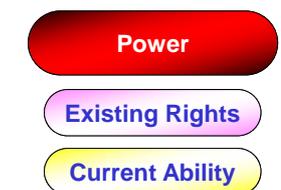
Control

- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities,
 - i.e. the activities that significantly affect the investee's returns (HKFRS 10.10)
- Power arises from rights.
 - Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings.
 - In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements (HKFRS 10.11)



Control

- An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.
 - Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee (HKFRS 10.12)
- If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities,
 - the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee (HKFRS 10.13)



Control

- An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities,
 - for example when another entity has significant influence
 - however, an investor that holds only protective rights does not have power over an investee, and consequently does not control the investee (HKFRS 10.14)

Power

Protective rights are:

- Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Substantive Rights

- HKFRS 10.B9 specifically stated that
 - To have power over an investee, an investor must have existing rights that give it the current ability to direct the relevant activities.
 - For the purpose of assessing power, only substantive rights and rights that are not protective shall be considered.

Control

- The determination about whether an investor has power depends on
 - the relevant activities,
 - the way decisions about the relevant activities are made and
 - the rights the investor and other parties have in relation to the investee. (HKFRS 10.B10)

Power

Existing Rights

Current Ability

relevant activities

Control

Example

- Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:
 - a. selling and purchasing of goods or services;
 - b. managing financial assets during their life (including upon default);
 - c. selecting, acquiring or disposing of assets;
 - d. researching and developing new products or processes; and
 - e. determining a funding structure or obtaining funding. (HKFRS 10.B11)

Power

relevant activities

Control

Example

- Examples of decisions about relevant activities include but are not limited to:
 - a. establishing operating and capital decisions of the investee, including budgets; and
 - b. appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment. (HKFRS 10.B12)

Power

relevant activities

Control

- Power arises from rights.
- The rights that may give an investor power can differ between investees. (HKFRS 10.B14)

Power

Existing Rights



Control

Example

- Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:
 - a. rights in the form of voting rights (or potential voting rights) of an investee;
 - b. rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities;
 - c. rights to appoint or remove another entity that directs the relevant activities;
 - d. rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and
 - e. other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities. (HKFRS 10.B15)

Power

Existing Rights



Control

Example

- Examples of evidence that the investor's rights are sufficient to give it power over the investee:
 - a. Appoint or approve the investee's key management personnel (KMP) who have the ability to direct the relevant activities.
 - b. Direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor.
 - c. Dominate either the nominations process for electing members of the investee's governing body or the obtaining of proxies from other holders of voting rights.
 - d. KMP are related parties of the investor (e.g. the same CEO of the investee and of the investor).
 - e. The majority of the members of the investee's governing body are related parties of the investor. (HKFRS 10.B18)

Power

Existing Rights

Greater weight is given to the list of evidence when considering power

Control

Example

- The following indicator suggests that the investor has more than a passive interest in the investee and, in combination with other rights, may indicate power:
 - a. The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor.
 - b. The investee's operations are dependent on the investor, such as in the following situations:
 - i. The investee depends on the investor to fund a significant portion of its operations.
 - ii. The investor guarantees a significant portion of the investee's obligations.
 - iii. The investee depends on the investor for critical services, technology, supplies or raw materials.

Power

Existing Rights



Control

Example

- iv. The investor controls assets such as licences or trademarks that are critical to the investee's operations.
- v. The investee depends on the investor for key management personnel, such as when the investor's personnel have specialised knowledge of the investee's operations.
- c. A significant portion of the investee's activities either involve or are conducted on behalf of the investor.
- d. The investor's exposure, or rights, to returns from its involvement with the investee is disproportionately greater than its voting or other similar rights.
 - e.g. there may be a situation in which an investor is entitled, or exposed, to more than half of the returns of the investee but holds less than half of the voting rights of the investee. (HKFRS 10.B19)

Power

Existing Rights



Control

- An investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others).
- For a right to be substantive,
 - the holder must have the practical ability to exercise that right. (HKFRS 10.B22)

Power

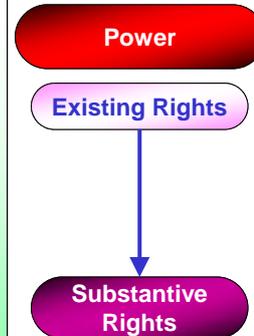
Existing Rights

Substantive Rights

Control

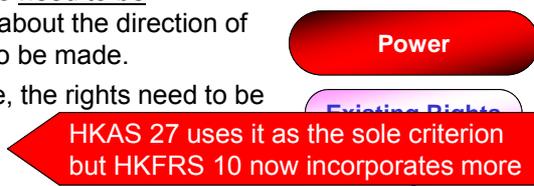
Example

- Determining whether rights are substantive requires judgement, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:
 - a. Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights;
 - b. When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so;
 - c. Whether the party or parties that hold the rights would benefit from the exercise of those rights, for example, terms of conditions of potential voting rights. (HKFRS 10.B24)



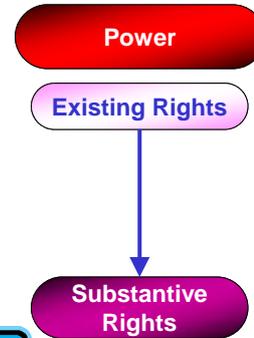
Control

- To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made.
 - Usually, to be substantive, the rights need to be currently exercisable.
- However, sometimes rights can be substantive,
 - even though the rights are not currently exercisable. (HKFRS 10.B24)



Control

- Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate.
- Such substantive rights do not require the holders to have the ability to initiate decisions.
- As long as the rights are not merely protective, substantive rights held by other parties may prevent the investor from controlling the investee
 - even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities. (HKFRS 10.B25)

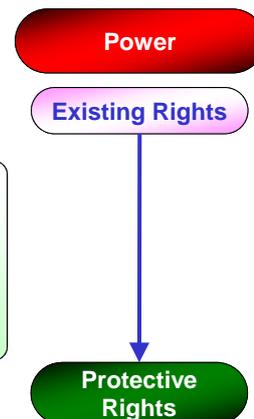


Control

- In evaluating whether rights give an investor power over an investee,
 - the investor shall assess whether its rights, and rights held by others, are protective rights. (HKFRS 10.B27)

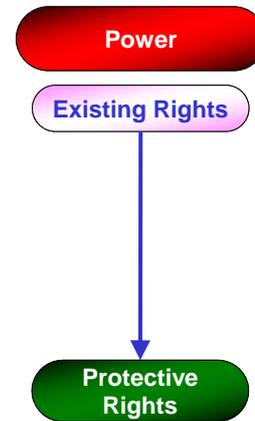
Protective rights are defined as

- Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.



Control

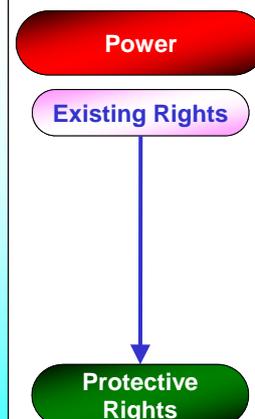
- Protective rights relate to fundamental changes to the activities of an investee or apply in exceptional circumstances.
 - However, not all rights that apply in exceptional circumstances or are contingent on events are protective. (HKFRS 10.B27)
- Because protective rights are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate,
 - an investor that holds only protective rights cannot have power or prevent another party from having power over an investee. (HKFRS 10.B27)



Control

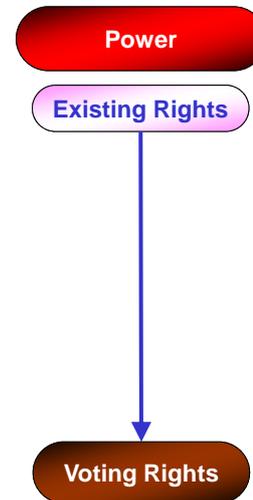
Example

- Examples of protective rights include but are not limited to:
 - a. a lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
 - b. the right of a party holding a non-controlling interest in an investee
 - to approve capital expenditure greater than that required in the ordinary course of business, or
 - to approve the issue of equity or debt instruments.
 - c. the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions. (HKFRS 10.B28)



Control

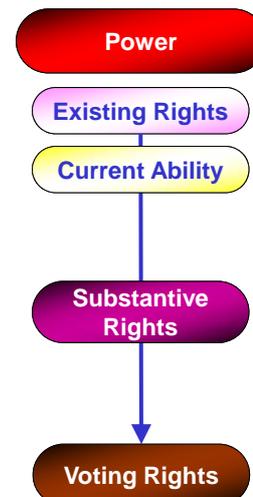
- Often an investor has the current ability, through voting or similar rights, to direct the relevant activities. (HKFRS 10.B34)
- An investor that holds more than half of the voting rights of an investee has power in the following situations, unless HKFRS 10.B36 or B37 applies:
 - a. the relevant activities
 - are directed by a vote of the holder of the majority of the voting rights, or
 - b. a majority of the members of the governing body that directs the relevant activities (e.g. directors)
 - are appointed by a vote of the holder of the majority of the voting rights. (HKFRS 10.B35)



Control

Majority of the Voting Rights But No Power

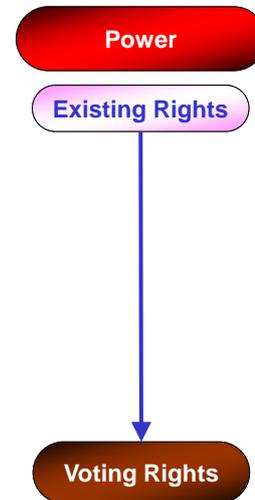
- For an investor that holds more than half of the voting rights of an investee, to have power over an investee,
 - the investor's voting rights
 - must be substantive (as discussed and in HKFRS 10.B22-B25) and
 - must provide the investor with the current ability to direct the relevant activities, which often will be through determining operating and financing policies.
- If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the investor,
 - the investor does not have power over the investee. (HKFRS 10.B36)



Control

Majority of the Voting Rights But No Power

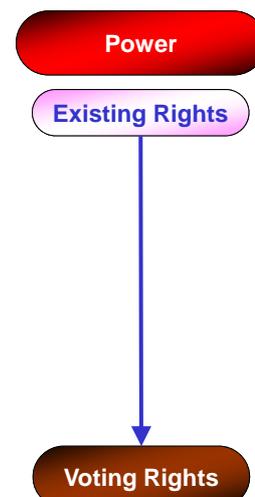
- An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive.
 - For example, an investor that has more than half of the voting rights in an investee cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator. (HKFRS 10.B37)



Control

Power without a Majority of the Voting Rights

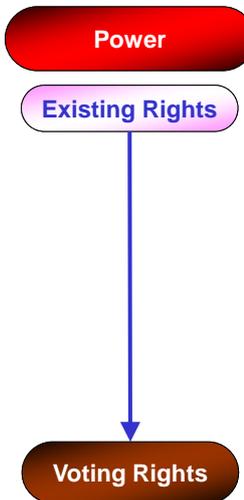
- An investor can have power even if it holds less than a majority of the voting rights of an investee.
- An investor can have power with less than a majority of the voting rights of an investee, for example, through:
 - a. a contractual arrangement between the investor and other vote holders;
 - b. rights arising from other contractual arrangements;
 - c. the investor's voting rights;
 - d. potential voting rights; or
 - e. a combination of (a)–(d). (HKFRS 10.B38)



Control

Contractual Arrangement with Other Vote Holders

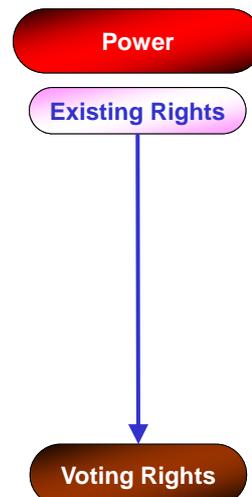
- A contractual arrangement between an investor and other vote holders can give the investor the right to exercise voting rights sufficient to give the investor power,
 - even if the investor does not have voting rights sufficient to give it power without the contractual arrangement.
- However, a contractual arrangement might ensure that the investor can direct enough other vote holders on how to vote to enable the investor to make decisions about the relevant activities. (HKFRS 10.B39)



Control

Rights from Other Contractual Arrangements

- Other decision-making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities.
 - For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability
 - to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns.
- However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee. (HKFRS 10.B40)



Control

The Investor's Voting Rights

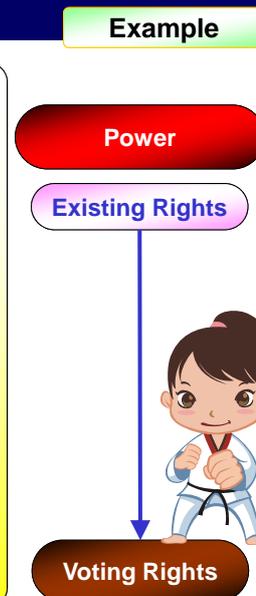
- An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally. (HKFRS 10.B41)



Control

Example

- When assessing whether an investor's voting rights are sufficient to give it power, an investor considers all facts and circumstances, including:
 - the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders, noting that:
 - the more voting rights an investor holds, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
 - the more voting rights an investor holds relative to other vote holders, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;



Control

Example

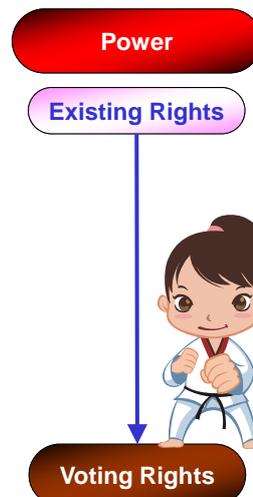
- iii. the more parties that would need to act together to outvote the investor, the more likely the investor is to have existing rights that give it the current ability to direct the relevant activities;
- b. potential voting rights held by the investor, other vote holders or other parties;
- c. rights arising from other contractual arrangements; and
- d. any additional facts and circumstances that indicate the investor has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings. (HKFRS 10.B42)



Control

The Investor's Voting Rights

- When the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed,
 - it may be clear, after considering the factors as listed alone, that the investor has power over the investee. (HKFRS 10.B43)



Control

Example

- An investor acquires 48% of the voting rights of an investee.
- The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights.
- None of the shareholders has any arrangements to consult any of the others or make collective decisions.
- When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48% interest would be sufficient to give it control.
- In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power. (HKFRS 10 Example 4)



Control

Case

 Cheung Kong (Holdings) Limited

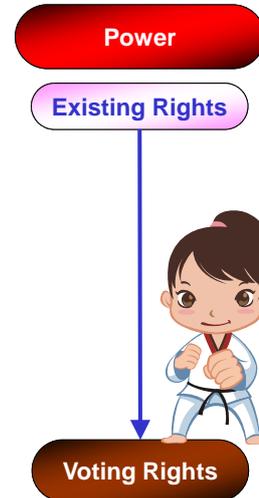
Group Structure
(as at 10.12.2012)



Control

The Investor's Voting Rights

- The factors listed in HKFRS 10.B42(a)–(c) (as discussed) alone may not be conclusive.
- If an investor, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings.



Control

The Investor's Voting Rights

- The fewer voting rights the investor holds, and the fewer parties that would need to act together to outvote the investor,
 - the more reliance would be placed on the additional facts and circumstances to assess whether the investor's rights are sufficient to give it power. (HKFRS 10.B45)
- If it is not clear, having considered the factors, that the investor has power,
 - the investor does not control the investee. (HKFRS 10.B46)



Control

Example

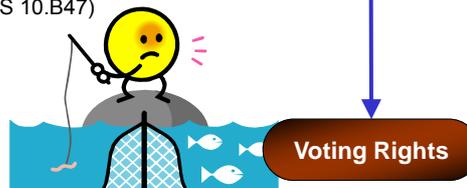
- An investor holds 45% of the voting rights of an investee.
- Eleven other shareholders each hold 5% of the voting rights of the investee.
- None of the shareholders has contractual arrangements to consult any of the others or make collective decisions.
- In this case, the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power over the investee.
- Additional facts and circumstances that may provide evidence that the investor has, or does not have, power shall be considered. (HKFRS 10 Example 7)



Control

Potential Voting Rights

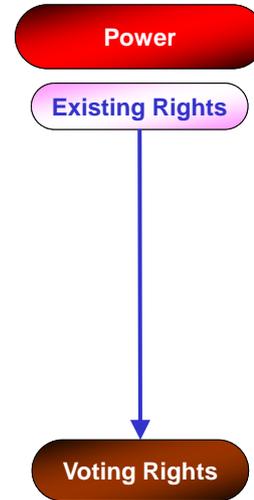
- When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power.
- Potential voting rights are
 - rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts.
- Those potential voting rights are considered only if the rights are substantive. (HKFRS 10.B47)



Control

Potential Voting Rights

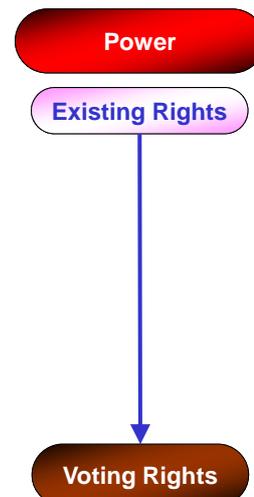
- When considering potential voting rights, an investor shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the investor has with the investee.
 - This includes an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. (HKFRS 10.B48)
- If the investor also has voting or other decision-making rights relating to the investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power. (HKFRS 10.B49)



Control

Potential Voting Rights

- Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities. (HKFRS 10.B50)



Control

Example

Investor A

- holds 70% of the voting rights of an investee.
- has been exercising its votes and is actively directing the relevant activities of the investee.

Investor B

- has 30% of the voting rights of the investee as well as an option to acquire half of investor A's voting rights.
 - The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). (HKFRS 10 Example 9)

In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities.

Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive.

Control

Example

- Investor A and two other investors each hold a third of the voting rights of an investee.
- The investee's business activity is closely related to investor A.
- In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money).
- If the debt were converted, investor A would hold 60% of the voting rights of the investee.
- Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. (HKFRS 10 Example 10)

Investor A has power over the investee

- because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.

Voting Rights

Control

- When assessing whether an investor has control of an investee,
 - the investor determines whether it is exposed, or has rights, to variable returns from its involvement with the investee.
- An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.
 - The investor's returns can be only positive, only negative or both positive and negative (HKFRS 10.15)

Power

Returns



Control

- Although only one investor can control an investee, more than one party can share in the returns of an investee.
 - For example, holders of non-controlling interests can share in the profits or distributions of an investee (HKFRS 10.16)

Returns



Control

Example

- Examples of returns include:
 - a. dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee.
 - b. remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
 - c. returns that are not available to other interest holders. (HKFRS 10.B57)

Returns



Control

- An investor controls an investee if the investor
 - not only has power over the investee and exposure or rights to variable returns from its involvement with the investee,
 - but also has the ability to use its power to affect the investor's returns from its involvement with the investee (HKFRS 10.17)
- Thus, an investor with decision-making rights shall determine whether it is
 - a principal or
 - an agent.
 - An investor that is an agent in accordance with HKFRS 10.B58–B72 does not control an investee when it exercises decision-making rights delegated to it (HKFRS 10.18)

Power

Returns

Link between Power & Returns



Control

- An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor.
- An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and
 - therefore does not control the investee when it exercises its decision-making authority.
- Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.
- A decision maker is not an agent simply because other parties can benefit from the decisions that it makes. (HKFRS 10.B58)

Link between
Power & Returns



Control

- A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:
 - a. the scope of its decision-making authority over the investee.
 - b. the rights held by other parties.
 - c. the remuneration to which it is entitled in accordance with the remuneration agreement(s).
 - d. the decision maker's exposure to variability of returns from other interests that it holds in the investee.
- Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances. (HKFRS 10.B60)

Link between
Power & Returns



Control

Scope of the Decision-Making Authority

- The scope of a decision maker's decision-making authority is evaluated by considering:
 - a. the activities that are permitted according to the decision-making agreement and specified by law, and
 - b. the discretion that the decision maker has when making decisions about those activities. (HKFRS 10.B62)
- A decision maker shall consider
 - the purpose and design of the investee,
 - the risks to which the investee was designed to be exposed,
 - the risks it was designed to pass on to the parties involved and
 - the level of involvement the decision maker had in the design of an investee. (HKFRS 10.B63)

Link between
Power & Returns



Control

Rights Held by Other Parties

- Substantive rights held by other parties may affect the decision maker's ability to direct the relevant activities of an investee.
- Substantive removal or other rights may indicate that the decision maker is an agent. (HKFRS 10.B64)
- When a single party holds substantive removal rights and can remove the decision maker without cause, this, in isolation, is sufficient to conclude that the decision maker is an agent. (HKFRS 10.B65)
- Substantive rights held by other parties that restrict a decision maker's discretion shall be considered in a similar manner to removal rights when evaluating whether the decision maker is an agent. (HKFRS 10.B66)

Link between
Power & Returns

Control

Remuneration

- The greater the magnitude of, and variability associated with, the decision maker's remuneration relative to the returns expected from the activities of the investee,
 - the more likely the decision maker is a principal. (HKFRS 10.B68)

Link between
Power & Returns

Control

Remuneration

- In determining whether it is a principal or an agent the decision maker shall also consider whether the following conditions exist:
 - a. The remuneration of the decision maker is commensurate with the services provided.
 - b. The remuneration agreement includes only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis. (HKFRS 10.B69)
- A decision maker cannot be an agent unless the conditions set out above are present.
- However, meeting those conditions in isolation is not sufficient to conclude that a decision maker is an agent. (HKFRS 10.B70)

Link between
Power & Returns

Control

Exposure to Variability of Returns from Other Interests

- A decision maker that holds other interests in an investee (eg investments in the investee or provides guarantees with respect to the performance of the investee), shall consider its exposure to variability of returns from those interests in assessing whether it is an agent.
- Holding other interests in an investee indicates that the decision maker may be a principal. (HKFRS 10.B71)

Link between
Power & Returns

Control

Exposure to Variability of Returns from Other Interests

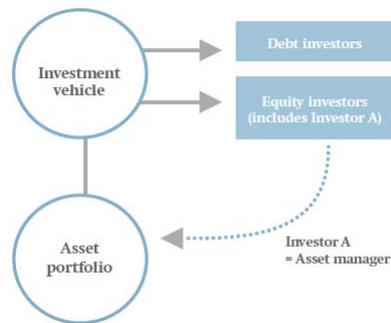
- In evaluating its exposure to variability of returns from other interests in the investee a decision maker shall consider the following:
 - a. the greater the magnitude of, and variability associated with, its economic interests, considering its remuneration and other interests in aggregate, the more likely the decision maker is a principal.
 - b. whether its exposure to variability of returns is different from that of the other investors and, if so, whether this might influence its actions.
- The decision maker shall evaluate its exposure relative to the total variability of returns of the investee. (HKFRS 10.B72)

Link between
Power & Returns

Control

Example

- An investment vehicle
 - It is created to purchase a portfolio of financial assets, funded by debt and equity instruments issued to a number of investors.
 - The equity tranche is designed to absorb the first losses and to receive residual returns of the investee.
- Investor A holds 30% of the equity
 - is also the asset manager who manages the vehicle's asset portfolio within portfolio guidelines.
 - The management includes decisions about
 - the selection, acquisition and disposal of the assets within those portfolio guidelines and
 - the management upon default of any asset in the portfolio.



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The graph is adapted from the IASB 67

Control

Example

- In applying HK(SIC)-Int 12, some would conclude that Investor A does not consolidate the investment vehicle.
 - Investor A holds 30% of the equity and therefore does not bear the majority of the risks and rewards.
 - The investment vehicle was arguably created for the benefit of all investors, and not only for the benefit of Investor A.
- According to IFRS 10, Investor A controls the investment vehicle.
 - Investor A
 - has the ability to direct the relevant activities,
 - has rights to variable returns from the performance of the vehicle and
 - has the ability to use its power to affect its own returns.

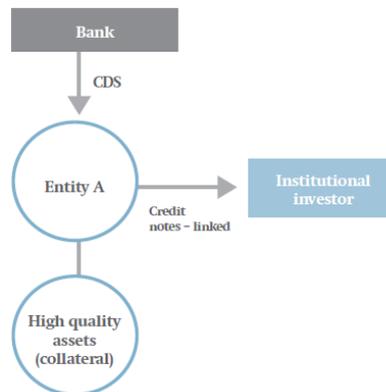
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Control

Example

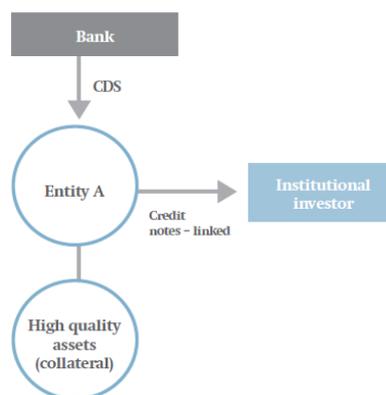
- Entity A is created to provide investment opportunities for an institutional investor that wishes to have exposure to Entity Z's credit risk (Entity Z is unrelated to any party involved in the arrangement).
 - Entity A obtains funding by issuing to the Investor notes that are linked to Entity Z's credit risk (credit-linked notes) and uses the proceeds to invest in a portfolio of high quality financial assets.
 - Entity A obtains exposure to Entity Z's credit risk by entering into a credit default swap (CDS) at market rates with a bank.
 - The CDS passes Entity Z's credit risk to Entity A in return for a fee paid by the bank.



Control

Example

- The portfolio of high quality financial assets serves as collateral for the bank.
- There are very few, if any, decisions to be made after initially setting up Entity A.
- Neither the bank nor the Investor has any voting or other rights that give it the ability to direct activities that significantly affect Entity A's returns.
- The bank has the ability to switch the collateral within predefined parameters but that ability affects the returns of Entity A only to a small extent.



Control

Example

- In applying HK(SIC)-Int 12, the Investor controls Entity A.
 - The Investor receives substantially all of the returns, and is exposed to substantially all of the risks of Entity A.
 - Entity A was also created for the benefit of the Investor.
 - The Investor consolidates Entity A and recognises the high quality assets of Entity A and the CDS in its consolidated financial statements.
- According to HKFRS 10, the Investor does not control Entity A.
 - Although the Investor receives substantially all returns and is exposed to substantially all risks of Entity A, the Investor has no means of managing that exposure, or of accessing or directing the assets and liabilities of Entity A.
 - The Investor has no power over Entity A, and thus does not control or consolidate Entity A.
 - According to IFRS 10 and IFRS 12, the Investor would recognise its investment in Entity A, and would also disclose information about its exposure to risk from that investment in Entity A (e.g. maximum and expected exposure to loss information).

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12	HKFRS 10 (and 12)
<p>Control as the basis for consolidation</p> <ul style="list-style-type: none"> • HKAS 27 identifies control as the basis for consolidation and focuses on the power to govern the financial and operating policies for assessing control of typical operating entities. • In contrast, HK(SIC)-Int 12 focuses on risks and rewards for assessing control of special purpose entities. 	<p>HKFRS 10 identifies control as the single basis for consolidation for all types of entities.</p> <ul style="list-style-type: none"> • There is no separate guidance with a different consolidation model for special purposes entities (as incorporated into the single consolidation model in IFRS 10) • The new control definition reflects that an investor <u>can achieve power over an investee in many ways, not just through governing financial and operating policies.</u> • The investor must assess whether it has <u>rights to direct the relevant activities.</u> • Although exposure to risks and rewards is an indicator of control, it is not the sole focus for consolidation for any type of entity.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Control without a majority of voting rights

- Although the idea that an investor could control an investee while holding less than 50% of the voting rights was implicit in HKAS 27, it was not explicitly stated.

HKFRS 10 states that an investor can control an investee with less than 50% of the voting rights of the investee.

- HKFRS 10 provides specific application guidance for assessing control in such cases.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Potential voting rights

- Only *currently exercisable* potential voting rights are considered when assessing control.

Potential voting rights need to be considered in assessing control, but only if they are **substantive**.

- Potential voting rights are substantive
 - when the holder has the practical ability to exercise its rights and
 - when those rights are exercisable when decisions about the direction of the relevant activities need to be made.
 - Deciding whether potential voting rights are substantive requires judgement.
- Potential voting rights may need to be considered even if they are not currently exercisable.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Agency relationships

- HKAS 27 has no specific guidance regarding situations when power is delegated by a principal to an agent.

HKFRS 10 contains specific application guidance for agency relationships.

- When decision-making authority has been delegated by a principal to an agent, an agent in such a relationship does not control the entity.
- The principal that has delegated the decision-making authority would consolidate the entity.
- The application guidance offers a range of factors to consider and contains examples.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Disclosures

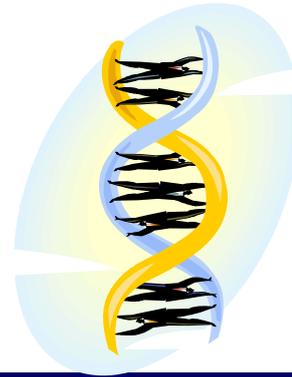
- HKAS 27 and HK(SIC)-Int 12 contain limited disclosure requirements for consolidated entities and no disclosure requirements for unconsolidated structured entities.

HKFRS 12 expands the disclosure requirements for both consolidated entities and unconsolidated structured entities.

- The disclosure objectives in HKFRS 12 will give preparers flexibility to tailor their individual disclosures to meet these objectives.
- HKFRS 12 presents a single disclosure standard for reporting entities with special relationships with other entities, including subsidiaries, joint ventures, associates and unconsolidated structured entities.

HKFRS 10: Accounting Requirements

- A parent shall prepare consolidated financial statements
 - using uniform accounting policies for like transactions and other events in similar circumstances (HKFRS 10.19)
- Consolidation of an investee shall
 - begin from the date the investor obtains control of the investee and
 - cease when the investor loses control of the investee (HKFRS 10.20)
- HKFRS 10.B86–B93 set out guidance for the preparation of consolidated financial statements (HKFRS 10.21)



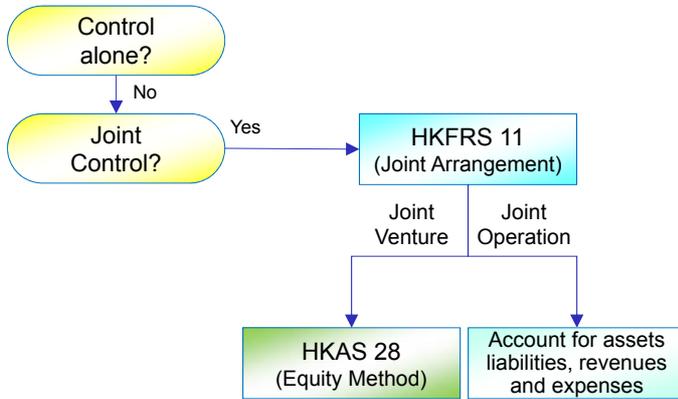
HKFRS 10: Effective Date

- An entity shall apply HKFRS 11 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- If an entity applies HKFRS 10 earlier, it shall disclose that fact and apply HKFRS 11, HKFRS 12, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time. (HKFRS 10.C1)



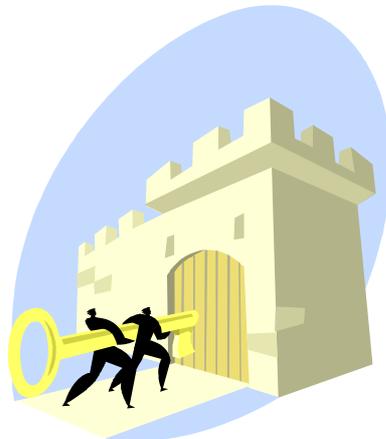
HKFRS 10, 11 and 12

Interaction between HKFRS 10, 11 & 12, & HKAS 28 & 39 (or HKFRS 9)



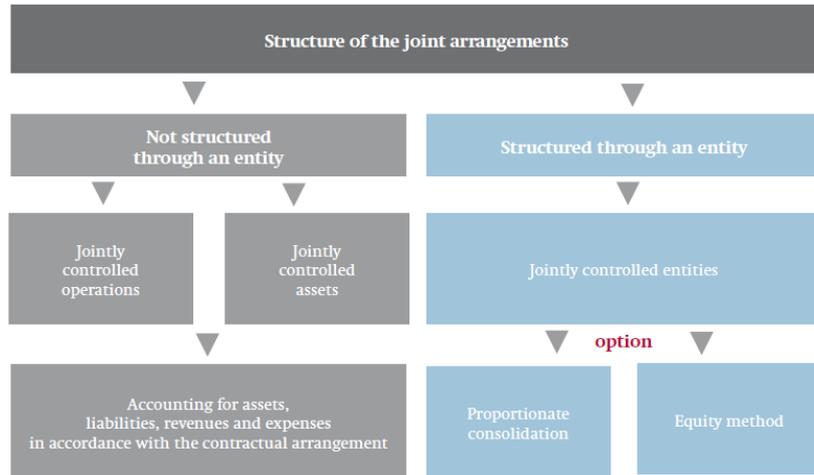
Joint Arrangements

(HKFRS 11)



HKFRS 11 Joint Arrangements

Previously in HKAS 31

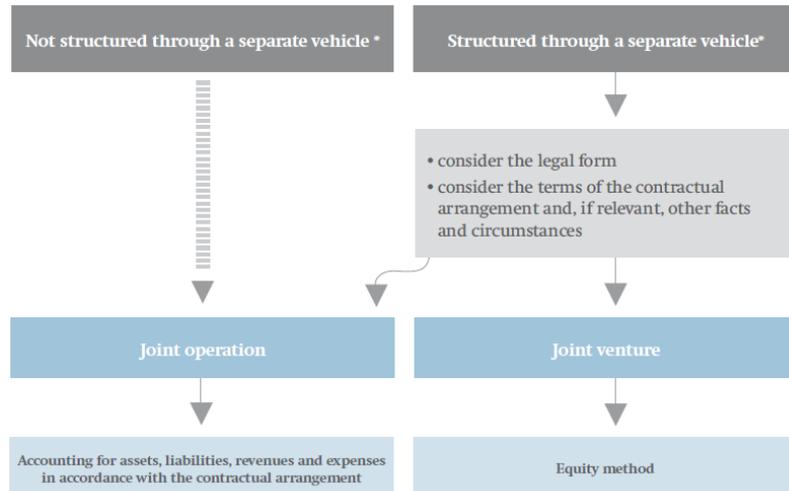


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•The graph is adapted from the IASB 81

HKFRS 11 Joint Arrangements

Introduced and amended in HKFRS 11



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•The graph is adapted from the IASB 82

Joint Control

- **Joint Arrangement,**

- a new name to subrogate joint venture, simultaneously, joint venture has another meaning now
- is defined to be an arrangement of which two or more parties have **joint control**.
- has the following characteristics:
 - a. The parties are bound by a contractual arrangement.
 - b. The contractual arrangement gives two or more of those parties joint control of the arrangement. (HKFRS 11.4-5)

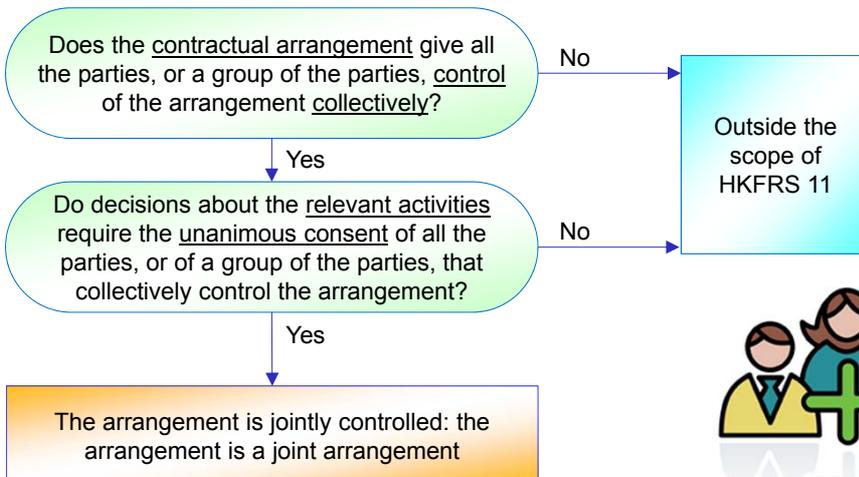
Joint control is defined as

- the contractually agreed sharing of control of an arrangement,
- which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. (HKFRS 11.7)



Joint Control

Assessing Joint Control



Joint Control

- An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively.
 - All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities). (HKFRS 11.8)
- Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively,
 - joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. (HKFRS 11.9)



Joint Control

- In a joint arrangement,
 - no single party controls the arrangement on its own.
- A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement. (HKFRS 11.10)
- An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement.
- HKFRS 11 distinguishes between
 - parties that have joint control of a joint arrangement (joint operators or joint venturers) and
 - parties that participate in, but do not have joint control of, a joint arrangement. (HKFRS 11.11)



Joint Control

Example

- Assume that three parties establish an arrangement:
 - A has 50% of the voting rights in the arrangement,
 - B has 30% and
 - C has 20%.
- The contractual arrangement between A, B and C specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement.
- Even though A can block any decision,
 - it does not control the arrangement because it needs the agreement of B.
- The terms of their contractual arrangement requiring at least 75% of the voting rights to make decisions about the relevant activities imply that
 - A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing. (HKFRS 11 Example 1)

Type of Joint Arrangements

- In consequence, joint arrangement is a new name to subrogate joint venture,
 - simultaneously, joint venture has another meaning now
- A new structure in classification, a joint arrangement is either (HKFRS 11.6)

Joint Operation

Joint Venture



Type of Joint Arrangements

Joint Operation

A joint operation is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to **the assets, and obligations for the liabilities**, relating to the arrangement.
- Those parties are called joint operators (HKFRS 11.15).

Joint Venture

A joint venture is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to the **net assets** of the arrangement.
- Those parties are called joint venturers (HKFRS 11.16).

Type of Joint Arrangements

Joint Operation

- An entity shall determine the type of joint arrangement in which it is involved.
- The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. (HKFRS 11.14)

Joint Venture



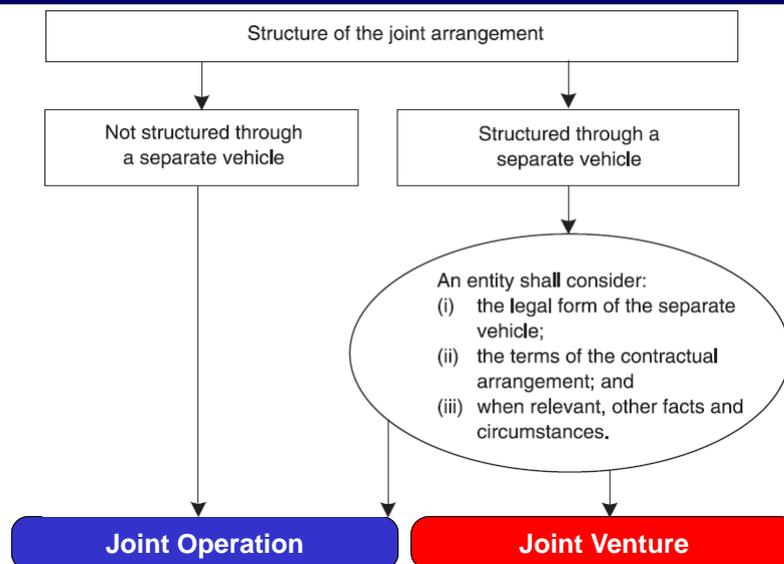
Type of Joint Arrangements

Joint Operation

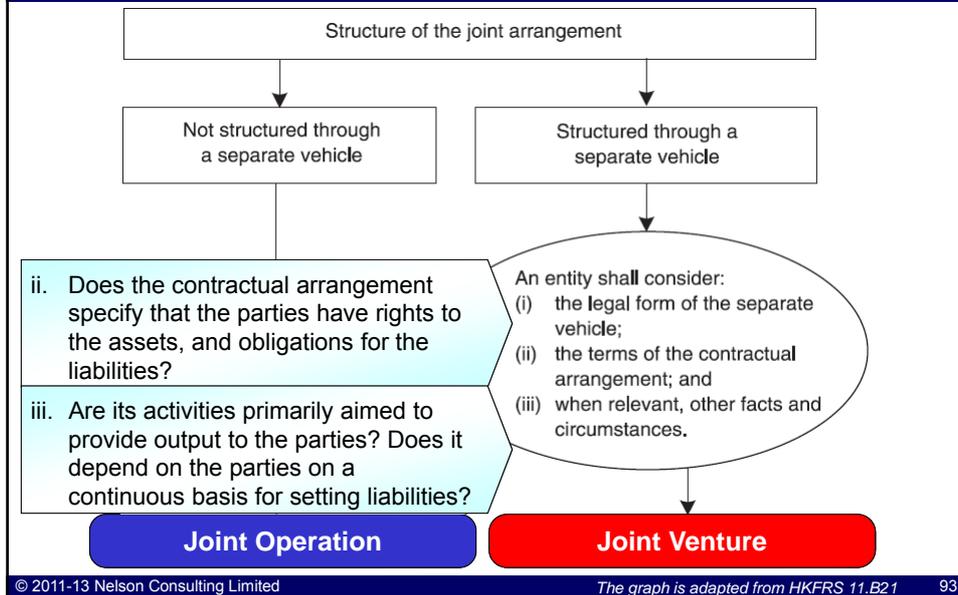
Joint Venture

- An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture.
- An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement.
- An entity assesses its rights and obligations by considering
 - the structure and legal form of the arrangement,
 - the terms agreed by the parties in the contractual arrangement and,
 - when relevant, other facts and circumstances. (HKFRS 11.17)

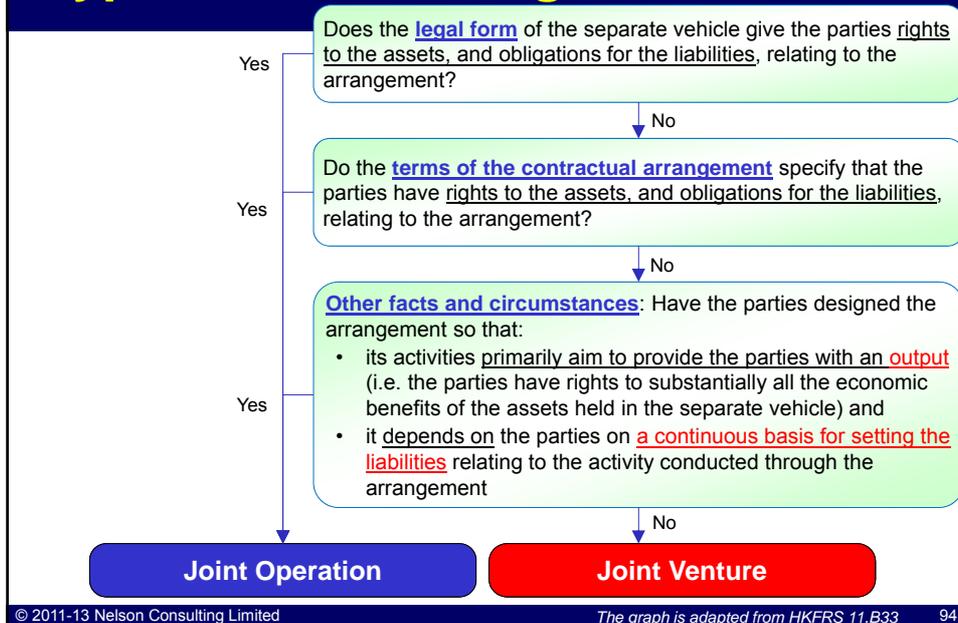
Type of Joint Arrangements



Type of Joint Arrangements



Type of Joint Arrangements



Joint Operation

Joint Operation



- A joint operator shall recognise in relation to its interest in a joint operation:
 - a. its assets, including its share of any assets held jointly;
 - b. its liabilities, including its share of any liabilities incurred jointly;
 - c. its revenue from the sale of its share of the output arising from the joint operation;
 - d. its share of the revenue from the sale of the output by the joint operation; and
 - e. its expenses, including its share of any expenses incurred jointly. (HKFRS 11.20)

Joint Operation

Joint Operation



- A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses. (HKFRS 11.21)
- The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in HKFRS 11.B34–B37. (HKFRS 11.22)

Joint Operation

Joint Operation



- Accounting for sales or contributions of assets to a joint operation

- When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation. (HKFRS 11.B34)
- When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator. (HKFRS 11.B35)

Joint Operation

Joint Operation



- Accounting for purchases of assets from a joint operation

- When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. (HKFRS 11.B36)
- When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses. (HKFRS 11.B37)

Joint Operation

Joint Operation



- A party that participates in, but does not have joint control of, a joint operation
 - having rights to the assets, and obligations for the liabilities, relating to the joint operation
 - It shall also account for its interest in the arrangement in accordance with HKFRS 11.20–22 (i.e. in the same manner as joint operator as set out above)
 - Not having rights to the assets, and obligations for the liabilities, relating to that joint operation,
 - It shall account for its interest in the joint operation in accordance with the HKFRSs applicable to that interest. (HKFRS 11.23)

Joint Venture



Joint Venture

- A joint venturer
 - shall recognise its interest in a joint venture ***as an investment*** and
 - shall account for that investment using ***the equity method*** in accordance with HKAS 28 *Investments in Associates and Joint Ventures*
 - unless the entity is exempted from applying the equity method as specified in HKAS 28 (HKFRS 11.24).
- HKAS 28 is renamed as “***Investments in Associates and Joint Ventures***”

Joint Venture



Joint Venture

- A party that participates in, but does not have joint control of, a joint venture
 - shall account for its interest in the arrangement in accordance with HKFRS 9 *Financial Instruments*,
 - unless it has significant influence over the joint venture, in which case it shall account for it in accordance with HKAS 28 (as amended in 2011). (HKFRS 11.25)

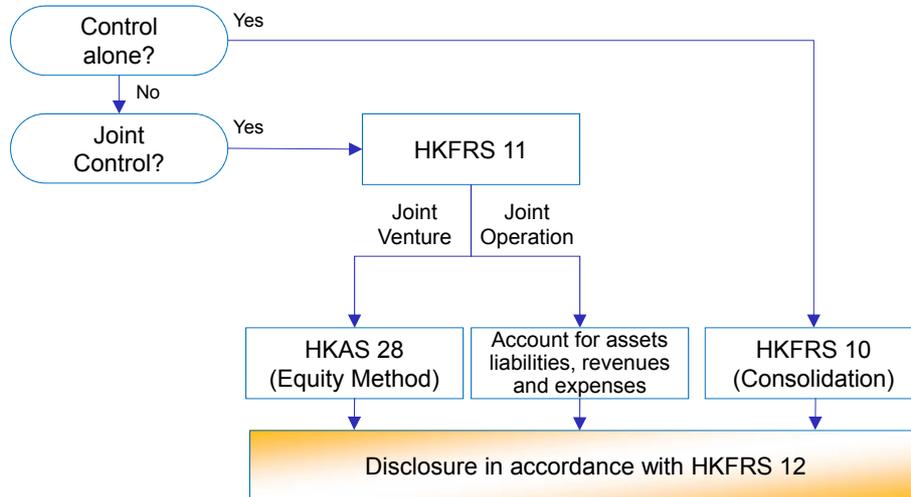
HKFRS 11: Effective Date

- An entity shall apply HKFRS 11 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- If an entity applies HKFRS 11 earlier, it shall disclose that fact and apply HKFRS 10, HKFRS 12, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time. (HKFRS 11.C1)



HKFRS 10, 11 and 12

Interaction between HKFRS 10, 11 & 12, & HKAS 28 & 39 (or HKFRS 9)



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The graph is adapted from the IASB 103

Disclosure of Interests in Other Entities

(HKFRS 12)



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HKFRS 12 Discl. of Interest in Other Entities

- The objective of HKFRS 12 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 (HKFRS 12.1).



HKFRS 12 Discl. of Interest in Other Entities

- For the purpose of HKFRS 12, an interest in another entity
 - refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.
 - can be evidenced by, but is not limited to,
 - the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.
 - includes the means by which an entity has control or joint control of, or significant influence over, another entity.
- An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.



HKFRS 12 Discl. of Interest in Other Entities

- To meet the objective of HKFRS 12, an entity shall disclose:
 - a. the significant judgements and assumptions it has made
 - in determining the nature of its interest in another entity or arrangement, and
 - in determining the type of joint arrangement in which it has an interest; and
 - b. information about its interests in:
 - i. subsidiaries;
 - ii. joint arrangements and associates; and
 - iii. **structured entities** that are not controlled by the entity (unconsolidated structured entities) (HKFRS 12.2).



What is Structured Entity?

HKFRS 12 Discl. of Interest in Other Entities

- Structured entity is defined as:
 - An entity that has been designed so that
 - voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and
 - the **relevant activities** are directed by means of contractual arrangements.
- HKFRS 12.B22–B24 provide further information about structured entities.



What is Structured Entity?

HKFRS 12 Discl. of Interest in Other Entities

- Structured entity often has some or all of the following features or attributes:
 - a. restricted activities.
 - b. a narrow and well-defined objective, such as
 - to effect a tax-efficient lease,
 - to carry out research and development activities,
 - to provide a source of capital or funding to an entity or
 - to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
 - c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
 - d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches). (HKFRS 12.B22).



Examples include:

- a. securitisation vehicles,
- b. asset-backed financings.
- c. some investment funds.

What is Structured Entity?

Significant Judgements and Assumptions

- An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:
 - a. that it has control of another entity, i.e. an investee as described in HKFRS 10.5 and 6;
 - b. that it has joint control of an arrangement or significant influence over another entity; and
 - c. the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle. (HKFRS 12.7)



Significant Judgements and Assumptions

- To comply with HKFRS 12.7, an entity shall disclose, for example, significant judgements and assumptions made in determining that:
 - a. it does not control another entity even though it holds more than half of the voting rights of the other entity.
 - b. it controls another entity even though it holds less than half of the voting rights of the other entity.
 - c. it is an agent or a principal (see HKFRS 10.58–72).
 - d. it does not have significant influence even though it holds 20% or more of the voting rights of another entity.
 - e. it has significant influence even though it holds less than 20% of the voting rights of another entity. (HKFRS 12.9)



Interests in Subsidiaries

- An entity shall disclose information that enables users of its consolidated financial statements
 - a. to understand:
 - i. the composition of the group; and
 - ii. the interest that non-controlling interests have in the group's activities and cash flows; and
 - b. to evaluate:
 - i. the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group;
 - ii. the nature of, and changes in, the risks associated with its interests in consolidated structured entities;
 - iii. the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control; and
 - iv. the consequences of losing control of a subsidiary during the reporting period. (HKFRS 12.10)

Joint Arrangements and Associates

- An entity shall disclose information that enables users of its financial statements to evaluate:
 - a. the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
 - b. the nature of, and changes in, the risks associated with its interests in joint ventures and associates. (HKFRS 12.20)

Unconsolidated Structured Entities

- An entity shall disclose information that enables users of its financial statements:
 - to understand the nature and extent of its interests in unconsolidated structured entities; and
 - to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. (HKFRS 12.24)
- An entity shall disclose
 - qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and
 - how the structured entity is financed. (HKFRS 12.26)



Unconsolidated Structured Entities

- If an entity has sponsored an unconsolidated structured entity for which it does not provide information required by HKFRS 12.29 (e.g. because it does not have an interest in the entity at the reporting date), the entity shall disclose:
 - a. how it has determined which structured entities it has sponsored;
 - b. income from those structured entities during the reporting period, including a description of the types of income presented; and
 - c. the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period. (HKFRS 12.27)
- An entity shall present the information in HKFRS 12.27(b) and (c) in tabular format,
 - unless another format is more appropriate, and classify its sponsoring activities into relevant categories. (HKFRS 12.24)



Unconsolidated Structured Entities

- An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:
 - a. the carrying amounts of the assets and liabilities recognised in its financial statements relating to its interests in unconsolidated structured entities.
 - b. the line items in the statement of financial position in which those assets and liabilities are recognised.
 - c. the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
 - d. a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities. (HKFRS 12.29)



Unconsolidated Structured Entities

- If during the reporting period an entity has, without having a contractual obligation to do so, provided financial or other support to an unconsolidated structured entity in which it previously had or currently has an interest (for example, purchasing assets of or instruments issued by the structured entity), the entity shall disclose:
 - a. the type and amount of support provided, including situations in which the entity assisted the structured entity in obtaining financial support; and
 - b. the reasons for providing the support. (HKFRS 12.30)
- An entity shall disclose any current intentions to provide financial or other support to an unconsolidated structured entity, including intentions to assist the structured entity in obtaining financial support. (HKFRS 12.31)



HKFRS 12: Summary

Case

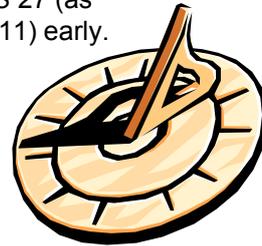


Quarterly Report 2012 (for 9 months ended 31.9.2012)

- Notes To The Condensed Consolidated Financial Statements (Unaudited)
 - HKFRS 12
 - specifies the disclosure requirements for
 - subsidiaries,
 - joint arrangements and
 - associates, and
 - introduces new requirements for unconsolidated structured entities.
 - The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

HKFRS 12: Effective Date

- An entity shall apply HKFRS 12 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- An entity is encouraged to provide information required by HKFRS 12 earlier than annual periods beginning on or after 1 January 2013.
- Providing some of the disclosures required by HKFRS 12 does not compel the entity to comply with all the requirements of HKFRS 12 or to apply HKFRS 10, HKFRS 11, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) early. (HKFRS 12.C1)



HKFRS 10, 11 and 12: Transition Guidance



HKFRS 10, 11 and 12: Transition Guidance

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, 11 and 12)
 - aims at clarifying the transition guidance in HKFRS 10.
 - 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.
 - for disclosures related to unconsolidated structured entities, 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
 - Same as the original effective date of HKFRS 11 to 12

Investment Entities

(Amendments to HKFRS 10 and 12 and HKAS 27)



Amendments to HKFRS 10

- To meet the objective in HKFRS 10.1, HKFRS 10:
 - a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
 - b) defines the principle of control, and establishes control as the basis for consolidation;
 - c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee;
 - d) sets out the accounting requirements for the preparation of consolidated financial statements; and
 - e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity. (HKFRS 10.2)

Amendments to HKFRS 10

- An entity that is a parent shall present consolidated financial statements. This HKFRS applies to all entities, except as follows:
 - (a) ...
 - (c) an **investment entity** need not present consolidated financial statements if it is required, in accordance with paragraph 31 of this HKFRS, to measure all of its subsidiaries at fair value through profit or loss. (HKFRS 10.4)



Amendments to HKFRS 10

- A parent shall determine whether it is an investment entity.
- An **investment entity** is an entity that:
 - (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
 - (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
 - (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.
- HKFRS 10.B85A–B85M provide related application guidance. (HKFRS 10.27)



Amendments to HKFRS 10

- In assessing whether it meets the definition described in HKFRS 10.27, an entity shall consider whether it has the following typical characteristics of an investment entity:
 - (a) it has more than one investment (see HKFRS 10.B85O–B85P);
 - (b) it has more than one investor (see HKFRS 10.B85Q–B85S);
 - (c) it has investors that are not related parties of the entity (see HKFRS 10.B85T–B85U); and
 - (d) it has ownership interests in the form of equity or similar interests (see HKFRS 10.B85V–B85W).



Amendments to HKFRS 10

- The absence of any of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity.
- An investment entity that does not have all of these typical characteristics provides additional disclosure required by HKFRS 10.9A of HKFRS 12 *Disclosure of Interests in Other Entities*. (HKFRS 10.28)



Amendments to HKFRS 10

- If facts and circumstances indicate that there are changes to one or more of the three elements that make up the definition of an investment entity, as described in HKFRS 10.27, or the typical characteristics of an investment entity, as described in HKFRS 10.28, a parent **shall reassess** whether it is an investment entity. (HKFRS 10.29)
- A parent that either
 - ceases to be an investment entity or
 - becomes an investment entityshall account for the change in its status prospectively from the date at which the change in status occurred (see HKFRS 10.B100–B101). (HKFRS 10.30)



Amendments to HKFRS 10

- Except as described in HKFRS 10.32, an investment entity shall not consolidate its subsidiaries or apply HKFRS 3 when it obtains control of another entity.
 - Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with HKFRS 9 (or HKAS 39). (HKFRS 10.31)
- Notwithstanding the requirement in HKFRS 10.31 (as above), if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities (see HKFRS 10.B85C–B85E),
 - it shall consolidate that subsidiary in accordance with HKFRS 10.19–26 and apply the requirements of HKFRS 3 to the acquisition of any such subsidiary. (HKFRS 10.32)
- A parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity. (HKFRS 10.33)

Effective Date

- Investment Entities (Amendments to HKFRS 10, HKFRS 12 and HKAS 27), issued in October 2012, amended paragraphs 2, 4, C2A, C6A and Appendix A and added paragraphs 27–33, B85A–B85W, B100–B101 and C3A–C3F.
- An entity shall apply those amendments for annual periods beginning on or after 1 January 2014.
 - Early application 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. (HKFRS 11.C1B)



Financial Reporting Update

On Consolidation and Joint Arrangement

24 January 2013



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24 January 2013



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