中汇
ZHONGHUI

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Introduction

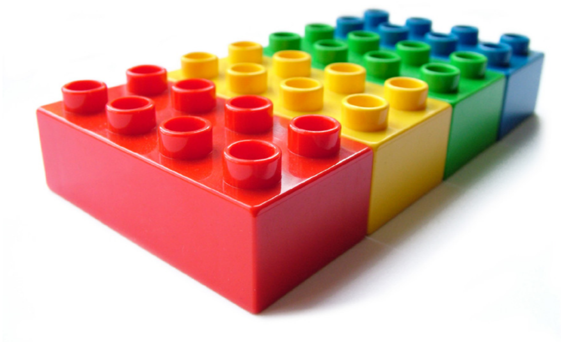
The Amendments are made to resolve the inconsistency between HKFRS 10 "Consolidated Financial Statements" and HKAS 28 "Investments in Associates and Joint Ventures" dealing with the loss of control of a subsidiary and the restrictions on recognising gains or losses arising from contributions of non-monetary assets to an associate or joint venture.

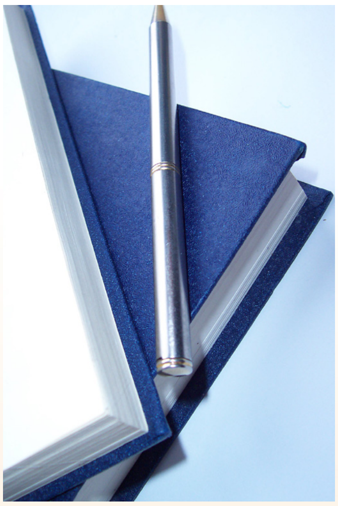
HKFRS 10 requires full profit or loss recognition of both the realised gain on disposal and the unrealised holding gain on remeasuring the retained interest on the loss of control of a subsidiary including sale or contribution of the subsidiary to an associate or joint venture.

HKAS 28 requires gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture to be recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The downstream transactions could include contribution of a non-monetary asset (e.g. subsidiary) to an associate or joint venture.

Effective Date

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





Summary of Amendments

The Amendments require different treatments for transactions involving assets that constitute a business (as defined in HKFRS 3 "Business Combinations") and those that do not.

Amendments to HKAS 28

Gains and losses resulting from upstream and downstream transactions involving assets that do not constitute a business, between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture.

The gain or loss resulting from a downstream transaction involving assets that constitute a business, between an entity (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements.

Although the Amendments do not specifically mention upstream transactions involving assets that constitute a business, it is our interpretation based on the Basis for Conclusions that the gain or loss resulting from an upstream transaction involving assets that constitute a business, between an entity (including its consolidated subsidiaries) and its associate or joint venture is also recognised in full in the investor's financial statements.

An entity might sell or contribute assets in two or more arrangements. When determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in HKFRS 10.

Amendments to HKFRS 10

If a parent loses control of a subsidiary that does not contain a business, as a result of a transaction involving an associate or joint venture (e.g. disposal of the subsidiary to the associate or joint venture) that is accounted for using the equity method, the gain or loss resulting from the transaction (including the amounts previously recognised in other comprehensive income that would be reclassified to profit or loss) is recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

If the parent retains an investment in the former subsidiary as an associate or joint venture that is accounted for using the equity method, the parent recognises the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in its profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

If the parent retains an investment in the former subsidiary as an investment that is accounted for in accordance with HKFRS 9 or HKAS 39 "Financial Instruments", the part of the gain or loss resulting from the remeasurement at fair value of the investment retained is recognised in full in the parent's profit or loss.

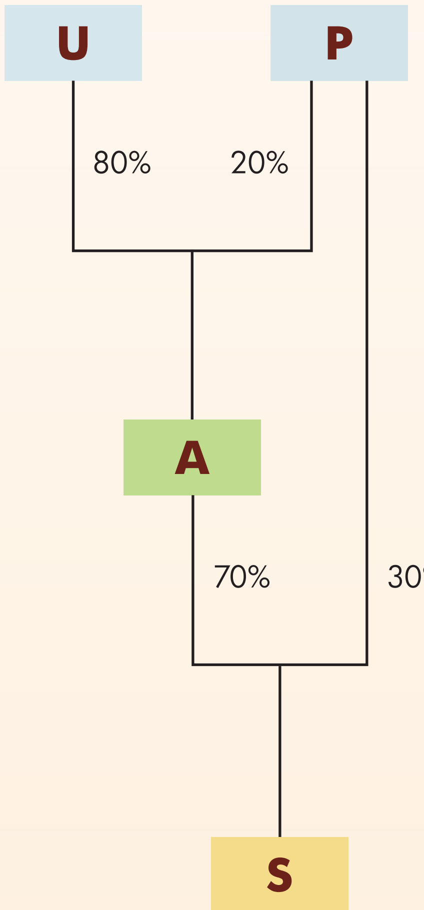
The above partial profit or loss recognition requirements of HKFRS 10 do not apply:

(a) to transactions with third parties, even if the parent retains an investment in the former subsidiary that becomes an associate or joint venture accounted for using the equity method; or

(b) when the parent elects to measure its investment in the associate or joint venture at fair value in accordance with HKFRS 9 or HKAS 39.

The Amendments include the following illustrative example:

A parent (P) has a 100% subsidiary (S) that does not contain a business. P sells 70% of S to a 20% associate (A) and loses control of S. The carrying amount of the net assets of S is CU100 and the carrying amount of the interest sold is CU70 (CU100 × 70%). The fair value of the consideration received is CU210. The investment retained in S is a 30% associate accounted for using the equity method and its fair value is CU90. The gain determined before the elimination required is CU200 (CU210 + CU90 – CU100). This gain comprises two parts:



(a) the gain (CU140) resulting from the sale of the 70% of S to A. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). P recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in A. This is 80% of this gain, that is CU112 (CU140 × 80%). The remaining 20% of the gain CU28 (CU140 × 20%) is eliminated against the carrying amount of the investment in A.

(b) the gain (CU60) resulting from the remeasurement at fair value of the investment retained in S. This gain is the difference between the fair value of the investment retained in S (CU90) and 30% of the carrying amount of the net assets of S CU30 (CU100 × 30%). P recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56% (70% × 80%) of the gain, that is CU34 (CU60 × 56%). The remaining 44% of the gain CU26 (CU60 × 44%) is eliminated against the carrying amount of the investment retained in S.

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