

Investment Entities **(Amendments to FRS 10, FRS 12 and FRS 127)**

This Addendum sets out the amendments to FRS 10 Consolidated Financial Statements. An entity shall apply the amendments in this Addendum for annual periods beginning on or after 1 January 2014. Early application is permitted. If an entity applies the amendments earlier, it shall disclose the fact and apply all amendments included in Investment Entities at the same time.

References to FRS 9

If an entity applies these amendments but does not yet apply FRS 9 Financial Instruments, any reference in this document to FRS 9 shall be read as a reference to FRS 139 Financial Instruments: Recognition and Measurement.

In the Introduction, paragraph IN7A is added and paragraph IN12 is amended. New text is underlined and deleted text is struck through. Paragraph IN7 is not amended but is reproduced here for clarity.

IN7 The FRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The FRS also sets out the accounting requirements for the preparation of consolidated financial statements.

IN7A *Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, 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 in accordance with FRS 9 *Financial Instruments*¹ instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to*

¹ Paragraph C7 of FRS 10 *Consolidated Financial Statements* states “If an entity applies this FRS but does not yet apply FRS 9, any reference in this FRS to FRS 9 shall be read as a reference to FRS 139 *Financial Instruments: Recognition and Measurement*.”

investment entities in FRS 12 *Disclosure of Interests in Other Entities* and FRS 127 *Separate Financial Statements*.

IN12 The disclosure requirements for interests in subsidiaries are specified in FRS 12 *Disclosure of Interests in Other Entities*.

Paragraphs 2 and 4 are amended. New text is underlined and deleted text is struck through.

2 To meet the objective in paragraph 1, this FRS:

- (a) ...
- (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; ~~and~~
- (e) defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

3 ...

4 An entity that is a parent shall present consolidated financial statements. This FRS 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 FRS, to measure all of its subsidiaries at fair value through profit or loss.

After paragraph 26, headings and paragraphs 27–33 are added.

Determining whether an entity is an investment entity

27 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.**

Paragraphs B85A–B85M provide related application guidance.

28 In assessing whether it meets the definition described in paragraph 27, an entity shall consider whether it has the following typical characteristics of an investment entity:

- (a) it has more than one investment (see paragraphs B85O–B85P);
- (b) it has more than one investor (see paragraphs B85Q–B85S);
- (c) it has investors that are not related parties of the entity (see paragraphs B85T–B85U); and
- (d) it has ownership interests in the form of equity or similar interests (see paragraphs B85V–B85W).

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 paragraph 9A of FRS 12 *Disclosure of Interests in Other Entities*.

29 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 paragraph 27, or the typical characteristics of an investment entity, as described in paragraph 28, a parent shall reassess whether it is an investment entity.

30 A parent that either ceases to be an investment entity or becomes an investment entity shall account for the change in its status prospectively from the date at which the change in status occurred (see paragraphs B100–B101).

Investment entities: exception to consolidation

31 Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply FRS 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 FRS 9.²

- 32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that provides services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this FRS and apply the requirements of FRS 3 to the acquisition of any such subsidiary.
- 33 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.

In Appendix A, a new definition is added. New text is underlined.

group

...

**investment
entity**

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.

In Appendix B, headings and paragraphs B85A–B85W are added.

Determining whether an entity is an investment entity

B85A An entity shall consider all facts and circumstances when assessing whether it is an investment entity, including its purpose

² Paragraph C7 of FRS 10 *Consolidated Financial Statements* states “If an entity applies this FRS but does not yet apply FRS 9, any reference in this FRS to FRS 9 shall be read as a reference to FRS 139 *Financial Instruments: Recognition and Measurement*.”

and design. An entity that possesses the three elements of the definition of an investment entity set out in paragraph 27 is an investment entity. Paragraphs B85B–B85M describe the elements of the definition in more detail.

Business purpose

- B85B** The definition of an investment entity requires that the purpose of the entity is to invest solely for capital appreciation, investment income (such as dividends, interest or rental income), or both. Documents that indicate what the entity’s investment objectives are, such as the entity’s offering memorandum, publications distributed by the entity and other corporate or partnership documents, will typically provide evidence of an investment entity’s business purpose. Further evidence may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees); for example, an entity may present its business as providing medium-term investment for capital appreciation. In contrast, an entity that presents itself as an investor whose objective is to jointly develop, produce or market products with its investees has a business purpose that is inconsistent with the business purpose of an investment entity, because the entity will earn returns from the development, production or marketing activity as well as from its investments (see paragraph B85I).
- B85C** An investment entity may provide investment-related services (eg investment advisory services, investment management, investment support and administrative services), either directly or through a subsidiary, to third parties as well as to its investors, even if those activities are substantial to the entity.
- B85D** An investment entity may also participate in the following investment-related activities, either directly or through a subsidiary, if these activities are undertaken to maximise the investment return (capital appreciation or investment income) from its investees and do not represent a separate substantial business activity or a separate substantial source of income to the investment entity:
- (a) providing management services and strategic advice to an investee; and
 - (b) providing financial support to an investee, such as a loan, capital commitment or guarantee.

- B85E If an investment entity has a subsidiary that provides investment-related services or activities, such as those described in paragraphs B85C–B85D, to the entity or other parties, it shall consolidate that subsidiary in accordance with paragraph 32.

Exit strategies

- B85F An entity's investment plans also provide evidence of its business purpose. One feature that differentiates an investment entity from other entities is that an investment entity does not plan to hold its investments indefinitely; it holds them for a limited period. Because equity investments and non-financial asset investments have the potential to be held indefinitely, an investment entity shall have an exit strategy documenting how the entity plans to realise capital appreciation from substantially all of its equity investments and non-financial asset investments. An investment entity shall also have an exit strategy for any debt instruments that have the potential to be held indefinitely, for example perpetual debt investments. The entity need not document specific exit strategies for each individual investment but shall identify different potential strategies for different types or portfolios of investments, including a substantive time frame for exiting the investments. Exit mechanisms that are only put in place for default events, such as a breach of contract or non-performance, are not considered exit strategies for the purpose of this assessment.
- B85G Exit strategies can vary by type of investment. For investments in private equity securities, examples of exit strategies include an initial public offering, a private placement, a trade sale of a business, distributions (to investors) of ownership interests in investees and sales of assets (including the sale of an investee's assets followed by a liquidation of the investee). For equity investments that are traded in a public market, examples of exit strategies include selling the investment in a private placement or in a public market. For real estate investments, an example of an exit strategy includes the sale of the real estate through specialised property dealers or the open market.
- B85H An investment entity may have an investment in another investment entity that is formed in connection with the entity for legal, regulatory, tax or similar business reasons. In this case, the investment entity investor need not have an exit strategy for that

investment, provided that the investment entity investee has appropriate exit strategies for its investments.

Earnings from investments

- B85I An entity is not investing solely for capital appreciation, investment income, or both, if the entity or another member of the group containing the entity (ie the group that is controlled by the investment entity's ultimate parent) obtains, or has the objective of obtaining, other benefits from the entity's investments that are not available to other parties that are not related to the investee. Such benefits include:
- (a) the acquisition, use, exchange or exploitation of the processes, assets or technology of an investee. This would include the entity or another group member having disproportionate, or exclusive, rights to acquire assets, technology, products or services of any investee; for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful;
 - (b) joint arrangements (as defined in FRS 11) or other agreements between the entity or another group member and an investee to develop, produce, market or provide products or services;
 - (c) financial guarantees or assets provided by an investee to serve as collateral for borrowing arrangements of the entity or another group member (however, an investment entity would still be able to use an investment in an investee as collateral for any of its borrowings);
 - (d) an option held by a related party of the entity to purchase, from that entity or another group member, an ownership interest in an investee of the entity;
 - (e) except as described in paragraph B85J, transactions between the entity or another group member and an investee that:
 - (i) are on terms that are unavailable to entities that are not related parties of either the entity, another group member or the investee;
 - (ii) are not at fair value; or
 - (iii) represent a substantial portion of the investee's or the entity's business activity, including business activities of other group entities.

B85J An investment entity may have a strategy to invest in more than one investee in the same industry, market or geographical area in order to benefit from synergies that increase the capital appreciation and investment income from those investees. Notwithstanding paragraph B85I(e), an entity is not disqualified from being classified as an investment entity merely because such investees trade with each other.

Fair value measurement

B85K An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures. In order to demonstrate that it meets this element of the definition, an investment entity:

- (a) provides investors with fair value information and measures substantially all of its investments at fair value in its financial statements whenever fair value is required or permitted in accordance with FRSs; and
- (b) reports fair value information internally to the entity's key management personnel (as defined in FRS 124), who use fair value as the primary measurement attribute to evaluate the performance of substantially all of its investments and to make investment decisions.

B85L In order to meet the requirement in B85K(a), an investment entity would:

- (a) elect to account for any investment property using the fair value model in FRS 140 *Investment Property*;
- (b) elect the exemption from applying the equity method in FRS 128 for its investments in associates and joint ventures; and
- (c) measure its financial assets at fair value using the requirements in FRS 9.

B85M An investment entity may have some non-investment assets, such as a head office property and related equipment, and may also have financial liabilities. The fair value measurement element of

the definition of an investment entity in paragraph 27(c) applies to an investment entity's investments. Accordingly, an investment entity need not measure its non-investment assets or its liabilities at fair value.

Typical characteristics of an investment entity

B85N In determining whether it meets the definition of an investment entity, an entity shall consider whether it displays the typical characteristics of one (see paragraph 28). The absence of one or more of these typical characteristics does not necessarily disqualify an entity from being classified as an investment entity but indicates that additional judgement is required in determining whether the entity is an investment entity.

More than one investment

B85O An investment entity typically holds several investments to diversify its risk and maximise its returns. An entity may hold a portfolio of investments directly or indirectly, for example by holding a single investment in another investment entity that itself holds several investments.

B85P There may be times when the entity holds a single investment. However, holding a single investment does not necessarily prevent an entity from meeting the definition of an investment entity. For example, an investment entity may hold only a single investment when the entity:

- (a) is in its start-up period and has not yet identified suitable investments and, therefore, has not yet executed its investment plan to acquire several investments;
- (b) has not yet made other investments to replace those it has disposed of;
- (c) is established to pool investors' funds to invest in a single investment when that investment is unobtainable by individual investors (eg when the required minimum investment is too high for an individual investor); or
- (d) is in the process of liquidation.

More than one investor

- B85Q Typically, an investment entity would have several investors who pool their funds to gain access to investment management services and investment opportunities that they might not have had access to individually. Having several investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).
- B85R Alternatively, an investment entity may be formed by, or for, a single investor that represents or supports the interests of a wider group of investors (eg a pension fund, government investment fund or family trust).
- B85S There may also be times when the entity temporarily has a single investor. For example, an investment entity may have only a single investor when the entity:
- (a) is within its initial offering period, which has not expired and the entity is actively identifying suitable investors;
 - (b) has not yet identified suitable investors to replace ownership interests that have been redeemed; or
 - (c) is in the process of liquidation.

Unrelated investors

- B85T Typically, an investment entity has several investors that are not related parties (as defined in FRS 124) of the entity or other members of the group containing the entity. Having unrelated investors would make it less likely that the entity, or other members of the group containing the entity, would obtain benefits other than capital appreciation or investment income (see paragraph B85I).
- B85U However, an entity may still qualify as an investment entity even though its investors are related to the entity. For example, an investment entity may set up a separate ‘parallel’ fund for a group of its employees (such as key management personnel) or other related party investor(s), which mirrors the investments of the entity’s main investment fund. This ‘parallel’ fund may qualify as an investment entity even though all of its investors are related parties.

Ownership interests

- B85V An investment entity is typically, but is not required to be, a separate legal entity. Ownership interests in an investment entity are typically in the form of equity or similar interests (eg partnership interests), to which proportionate shares of the net assets of the investment entity are attributed. However, having different classes of investors, some of which have rights only to a specific investment or groups of investments or which have different proportionate shares of the net assets, does not preclude an entity from being an investment entity.
- B85W In addition, an entity that has significant ownership interests in the form of debt that, in accordance with other applicable FRSs, does not meet the definition of equity, may still qualify as an investment entity, provided that the debt holders are exposed to variable returns from changes in the fair value of the entity's net assets.

In Appendix B, a heading and paragraphs B100–B101 are added.
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Accounting for a change in investment entity status

- B100 When an entity ceases to be an investment entity, it shall apply FRS 3 to any subsidiary that was previously measured at fair value through profit or loss in accordance with paragraph 31. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All subsidiaries shall be consolidated in accordance with paragraphs 19–24 of this FRS from the date of change of status.
- B101 When an entity becomes an investment entity, it shall cease to consolidate its subsidiaries at the date of the change in status, except for any subsidiary that shall continue to be consolidated in accordance with paragraph 32. The investment entity shall apply the requirements of paragraphs 25 and 26 to those subsidiaries that it ceases to consolidate as though the investment entity had lost control of those subsidiaries at that date.

In Appendix C, new paragraph C1B is added. For paragraph C1A, refer to the document entitled “*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to FRS 10, FRS 11 and FRS 12)”.

- C1B *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, 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.

In Appendix C, paragraph C2A which was added by *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to FRS 10, FRS 11 and FRS 12) is further amended by this Addendum. New text is underlined.

- C2A Notwithstanding the requirements of paragraph 28 of FRS 108, when this FRS is first applied, and, if later, when the *Investment Entities* amendments to this FRS are first applied, an entity need only present the quantitative information required by paragraph 28(f) of FRS 108 for the annual period immediately preceding the date of initial application of this FRS (the ‘immediately preceding period’). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

In Appendix C, new paragraphs C3A–C3F are added.

- C3A At the date of initial application, an entity shall assess whether it is an investment entity on the basis of the facts and circumstances that exist at that date. If, at the date of initial application, an entity concludes that it is an investment entity, it shall apply the requirements of paragraphs C3B–C3F instead of paragraphs C5–C5A.
- C3B Except for any subsidiary that is consolidated in accordance with paragraph 32 (to which paragraphs C3 and C6 or paragraphs C4–C4C, whichever is relevant, apply), an investment entity shall

measure its investment in each subsidiary at fair value through profit or loss as if the requirements of this FRS had always been effective. The investment entity shall retrospectively adjust both the annual period that immediately precedes the date of initial application and equity at the beginning of the immediately preceding period for any difference between:

- (a) the previous carrying amount of the subsidiary; and
- (b) the fair value of the investment entity's investment in the subsidiary.

The cumulative amount of any fair value adjustments previously recognised in other comprehensive income shall be transferred to retained earnings at the beginning of the annual period immediately preceding the date of initial application.

- C3C Before the date that FRS 13 *Fair Value Measurement* is adopted, an investment entity shall use the fair value amounts that were previously reported to investors or to management, if those amounts represent the amount for which the investment could have been exchanged between knowledgeable, willing parties in an arm's length transaction at the date of the valuation.
- C3D If measuring an investment in a subsidiary in accordance with paragraphs C3B–C3C is impracticable (as defined in FRS 108), an investment entity shall apply the requirements of this FRS at the beginning of the earliest period for which application of paragraphs C3B–C3C is practicable, which may be the current period. The investor shall retrospectively adjust the annual period that immediately precedes the date of initial application, unless the beginning of the earliest period for which application of this paragraph is practicable is the current period. If this is the case, the adjustment to equity shall be recognised at the beginning of the current period.
- C3E If an investment entity has disposed of, or has lost control of, an investment in a subsidiary before the date of initial application of this FRS, the investment entity is not required to make adjustments to the previous accounting for that subsidiary.
- C3F If an entity applies the *Investment Entities* amendments for a period later than when it applies FRS 10 for the first time, references to 'the date of initial application' in paragraphs C3A–

C3E shall be read as ‘the beginning of the annual reporting period for which the amendments in *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, are applied for the first time.’

In Appendix C, paragraph C6A which was added by *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to FRS 10, FRS 11 and FRS 12) is further amended by this Addendum. New text is underlined and deleted text is struck through.

C6A Notwithstanding the references to the annual period immediately preceding the date of initial application (the ‘immediately preceding period’) in paragraphs ~~C3B~~C4–C5A, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the ‘immediately preceding period’ in paragraphs ~~C3B~~C4–C5A shall be read as the ‘earliest adjusted comparative period presented’.

Consequential amendments to FRS 1 *First-time Adoption of Financial Reporting Standards*

This Addendum sets out amendments to FRS 1 First-time Adoption of Financial Reporting Standards that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

Paragraph 39T is added. For paragraphs 39F–39S, refer to the documents listed in the table below:

Paragraph	Document title
39F	<i>Disclosures—Transfers of Financial Assets (Amendments to FRS 7)</i>
39G	<i>FRS 9 Financial Instruments (IFRS 9 Financial Instruments issued by IASB in October 2010)</i>
39H	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to FRS 1)</i>
39I	<i>FRS 10 Consolidated Financial Statements and FRS 11 Joint Arrangements</i>
39J	<i>FRS 13 Fair Value Measurement</i>
39K	<i>Presentation of Items of Other Comprehensive Income (Amendments to FRS 101)</i>
39L	<i>FRS 119 Employee Benefits (as amended in November 2011)</i>
39M	<i>IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine</i>
39N and 39O	<i>Government Loans (Amendments to FRS 1)</i>
39P–39R	<i>Improvements to FRSs (2012)</i>
39S	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to FRS 10, FRS 11 and FRS 12)</i>

- 39T *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraphs D16, D17 and Appendix C and added a heading and paragraphs E6–E7. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Appendix C is amended. New text is underlined.
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This appendix is an integral part of the FRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to FRSs. This Appendix should only be applied to business combinations within the scope of FRS 3 Business Combinations.

In Appendix D, paragraphs D16–D17 are amended. New text is underlined.
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- D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to FRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in FRS 10, that is required to be measured at fair value through profit or loss); or
 - (b) ...
- D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent

shall not apply the exception to consolidation that is used by any investment entity subsidiaries. ...

In Appendix E, after paragraph E5, a heading and paragraphs E6–E7 are added. For paragraph E5, refer to the document entitled “FRS 119 *Employee Benefits* (as amended in November 2011)”.

Investment entities

- E6 A first-time adopter that is a parent shall assess whether it is an investment entity, as defined in FRS 10, on the basis of the facts and circumstances that exist at the date of transition to FRSs.
- E7 A first-time adopter that is an investment entity, as defined in FRS 10, may apply the transition provisions in paragraphs C3C–C3D of FRS 10 and paragraphs 18C–18G of FRS 127 if its first FRS financial statements are for an annual period ending on or before 31 December 2014. The references in those paragraphs to the annual period that immediately precedes the date of initial application shall be read as the earliest annual period presented. Consequently, the references in those paragraphs shall be read as the date of transition to FRSs.

Consequential amendments to FRS 3 *Business Combinations*

This Addendum sets out amendments to FRS 3 Business Combinations that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

In the Introduction, paragraph IN6 is amended. New text is underlined.

IN6 A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control or the acquiree is a subsidiary of an investment entity, as defined in FRS 10 Consolidated Financial Statements, which is required to be measured at fair value through profit or loss. ...

Paragraphs 2A and 64G are added. Paragraph 7 which was amended by FRS 10 is further amended by this Addendum. New text is underlined and deleted text is struck through.

For paragraphs 64D–64F, refer to the documents listed in the table below:

Paragraph	Document title
64D	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in October 2010)
64E	FRS 10 <i>Consolidated Financial Statements</i>
64F	FRS 13 <i>Fair Value Measurement</i>

2A The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in FRS 10 Consolidated Financial Statements, of an investment in a subsidiary that is required to be measured at fair value through profit or loss.

7 The guidance in FRS 10 ~~*Consolidated Financial Statements*~~ shall be used to identify the acquirer ...

64G *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraph 7 and added paragraph 2A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies these amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 7 *Financial Instruments: Disclosures*

This Addendum sets out amendments to FRS 7 Financial Instruments: Disclosures that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

References to FRS 9

If an entity applies these amendments but does not yet apply FRS 9 Financial Instruments, any reference in this document to FRS 9 shall be read as a reference to FRS 139 Financial Instruments: Recognition and Measurement.

Paragraph 3 which was amended by FRS 9 (IFRS 9 issued by IASB in November 2009), FRS 9 (IFRS 9 issued by IASB in October 2010), FRS 10, FRS 11 *Joint Arrangements* and FRS 13 *Fair Value Measurement* is further amended by this Addendum. Paragraph 44X is added. New text is underlined and deleted text is struck through.

For paragraphs 44A–44W, refer to the documents listed in the table below:

Paragraph	Document title
44A	FRS 101 <i>Presentation of Financial Statements</i> (as revised in 2009)
44B	FRS 3 <i>Business Combinations</i> (as revised in 2010)
44C	<i>Puttable Financial Instruments and Obligations Arising on Liquidation</i> (Amendments to FRS 132 and FRS 101)
44D	Improvements to FRSs (2009)
44E–44F	[Deleted by IASB]
44G	<i>Improving Disclosures about Financial Instruments</i> (Amendments to FRS 7)
44H	[Deleted by IASB]
44I–44J	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in November 2009)

Paragraph	Document title
44K–44L	Improvements to FRSs (2010)
44M	<i>Disclosures—Transfers of Financial Assets</i> (Amendments to FRS 7)
44N	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in October 2010)
44O	FRS 10 <i>Consolidated Financial Statements</i> and FRS 11 <i>Joint Arrangements</i>
44P	FRS 13 <i>Fair Value Measurement</i>
44Q	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)
44R	<i>Disclosures—Offsetting Financial Assets and Financial Liabilities</i> (Amendments to FRS 7)
44S–44W	<i>Mandatory Effective Date of FRS 9 and Transition Disclosures</i> (Amendments to FRS 9 (IFRS 9 issued by IASB in November 2009), FRS 9 (IFRS 9 issued by IASB in October 2010) and FRS 7)

3 This FRS shall be applied by all entities to all types of financial instruments, except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with FRS 10 *Consolidated Financial Statements*, FRS 127 *Separate Financial Statements* or FRS 128 *Investments in Associates and Joint Ventures*. However, in some cases, FRS 10, FRS 127 or FRS 128 require or permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 9; in those cases, entities shall apply the requirements of this FRS and, for those measured at fair value, the requirements of FRS 13 *Fair Value Measurement*. Entities shall also apply this FRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in FRS 132.

44X *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraph 3. An entity shall apply that amendment for annual periods beginning on or after

1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 107 *Statement of Cash Flows*

This Addendum sets out amendments to FRS 107 Statement of Cash Flows that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

In the rubric ‘paragraphs 1–57’ is amended to ‘paragraphs 1–58’.

Paragraph 42A is amended and paragraphs 40A and 58 are added. Paragraph 42B which was amended by FRS 10 is further amended by this Addendum. New text is underlined and deleted text is struck through.

For paragraph 57, refer to the documents entitled “FRS 10 *Consolidated Financial Statements*” and “FRS 11 *Joint Arrangements*”.

- 40A** An investment entity, as defined in FRS 10 *Consolidated Financial Statements*, need not apply paragraphs 40(c) or 40(d) to an investment in a subsidiary that is required to be measured at fair value through profit or loss.
- 42A** Cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities, unless the subsidiary is held by an investment entity, as defined in FRS 10, and is required to be measured at fair value through profit or loss.
- 42B** Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary’s equity instruments, are accounted for as equity transactions (see FRS 10 ~~*Consolidated Financial Statements*~~), unless the subsidiary is held by an investment entity and is required to be measured at fair value through profit or loss. Accordingly, the resulting cash flows are classified in the same way as other transactions with owners described in paragraph 17.

58 *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraphs 42A and 42B and added paragraph 40A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 112 *Income Taxes*

This Addendum sets out amendments to FRS 112 Income Taxes that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

Paragraphs 58 and 68C are amended and paragraph 98C is added. New text is underlined.

For paragraphs 96–98B, refer to the documents listed in the table below:

Paragraph	Document title
96	[Deleted by IASB]
97	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in October 2010)
98	<i>Deferred Tax: Recovery of Underlying Assets</i> (Amendments to FRS 112)
98A	FRS 11 <i>Joint Arrangements</i>
98B	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)

58 **Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:**

- (a) ...
- (b) **a business combination (other than the acquisition by an investment entity, as defined in FRS 10 *Consolidated Financial Statements*, of a subsidiary that is required to be measured at fair value through profit or loss) (see paragraphs 66 to 68).**

68C As noted in paragraph 68A, the amount of the tax deduction (or estimated future tax deduction, measured in accordance with

paragraph 68B) may differ from the related cumulative remuneration expense. Paragraph 58 of the Standard requires that current and deferred tax should be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from (a) a transaction or event that is recognised, in the same or a different period, outside profit or loss, or (b) a business combination (other than the acquisition by an investment entity of a subsidiary that is required to be measured at fair value through profit or loss). If the amount of the tax deduction (or estimated future tax deduction) exceeds the amount of the related cumulative remuneration expense, this indicates that the tax deduction relates not only to remuneration expense but also to an equity item. In this situation, the excess of the associated current or deferred tax should be recognised directly in equity.

98C *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraphs 58 and 68C. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 124 *Related Party Disclosures*

This Addendum sets out amendments to FRS 124 Related Party Disclosures that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

Paragraph 4 is amended and paragraph 28B is added. Paragraph 9 which was amended by FRS 10 is further amended by this Addendum. New text is underlined.

For paragraph 28A, refer to documents entitled “FRS 10 *Consolidated Financial Statements*”, “FRS 11 *Joint Arrangements*” and “FRS 12 *Disclosure of Interests in Other Entities*”.

- 4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity’s financial statements. Intragroup related party transactions and outstanding balances are eliminated, except for those between an investment entity and its subsidiaries measured at fair value through profit or loss, in the preparation of consolidated financial statements of the group.
- 9 **The terms ‘control’ and ‘investment entity’, ‘joint control’, and ‘significant influence’ are defined in FRS 10, FRS 11 *Joint Arrangements* and FRS 128 *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those FRSs.**
- 28B *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraphs 4 and 9. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 132 *Financial Instruments: Presentation*

This Addendum sets out amendments to FRS 132 Financial Instruments: Presentation that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

References to FRS 9

If an entity applies these amendments but does not yet apply FRS 9 Financial Instruments, any reference in this document to FRS 9 shall be read as a reference to FRS 139 Financial Instruments: Recognition and Measurement.

Paragraph 4 which was amended by FRS 9 (IFRS 9 issued by IASB in October 2010), FRS 10 and FRS 11 *Joint Arrangements* is further amended by this Addendum. Paragraph 97N is added. New text is underlined and deleted text is struck through.

For paragraphs 97H–97M, refer to the documents listed in the table below:

Paragraph	Document title
97H	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in October 2010)
97I	FRS 10 <i>Consolidated Financial Statements</i> and FRS 11 <i>Joint Arrangements</i>
97J	FRS 13 <i>Fair Value Measurement</i>
97K	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)
97L	<i>Offsetting Financial Assets and Financial Liabilities</i> (Amendments to FRS 132)
97M	Improvements to FRSs (2012)

4 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with FRS 10 *Consolidated Financial Statements*, FRS 127 *Separate Financial Statements* or FRS 128 *Investments in Associates and Joint Ventures*. However, in some cases, FRS 10, FRS 127 or FRS 128 require or permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.**

97N *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraph 4. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 134 *Interim Financial Reporting*

This Addendum sets out amendments to FRS 134 Interim Financial Reporting that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

In the rubric 'paragraphs 1–53' is amended to 'paragraphs 1–54'.

Paragraph 16A is amended and paragraph 54 is added. New text is underlined.

For paragraphs 16A(j) and 49–53, refer to the documents listed in the table below:

Paragraph	Document title
16A(j)	FRS 13 <i>Fair Value Measurement</i>
49	Improvements to FRSs (2010)
50	FRS 13 <i>Fair Value Measurement</i>
51	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)
52–53	Improvements to FRSs (2012)

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.

(a) ...

(k) for entities becoming, or ceasing to be, investment entities, as defined in FRS 10 *Consolidated Financial Statements*,

the disclosures in FRS 12 *Disclosure of Interests in Other Entities* paragraph 9B.

- 54 *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, added paragraph 16A. An entity shall apply that amendment for annual periods beginning 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies that amendment earlier it shall also apply all amendments included in *Investment Entities* at the same time.

Consequential amendments to FRS 139 *Financial Instruments: Recognition and Measurement*

This Addendum sets out amendments to FRS 139 Financial Instruments: Recognition and Measurement that are a consequence of the MASB issuing Investment Entities (Amendments to FRS 10, FRS 12 and FRS 127). An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of Investment Entities is permitted. If an entity applies those amendments earlier it shall apply all amendments included in Investment Entities at the same time. Amended paragraphs are shown with new text underlined and deleted text struck through.

Paragraphs 2(g) and 80 are amended and paragraph 103R is added. Paragraph 2(a) which was amended by FRS 10 and FRS 11 *Joint Arrangements* is further amended by this Addendum. New text is underlined and deleted text is struck through.

For paragraphs 103L–103Q, refer to the documents listed in the table below:

Paragraph	Document title
103L–103M	[Deleted by IASB]
103N	Improvements to FRSs (2010)
103O	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> issued by IASB in October 2010)
103P	FRS 10 <i>Consolidated Financial Statements</i> and FRS 11 <i>Joint Arrangements</i>
103Q	FRS 13 <i>Fair Value Measurement</i>

2 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with FRS 10 *Consolidated Financial Statements*, FRS 127 *Separate Financial Statements* or FRS 128 *Investments in Associates and Joint Ventures*. However, in some cases, FRS 10, FRS 127 or FRS 128 require or permit an entity to account**

~~for entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to FRS 127 or FRS 128 is accounted for under~~ in accordance with some or all of the requirements of this Standard. Entities shall also apply this Standard to derivatives on an interest in a subsidiary, associate or joint venture unless the derivative meets the definition of an equity instrument of the entity in FRS 132 *Financial Instruments: Presentation*.

- (b) ...
- (g) any forward contract between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination within the scope of FRS 3 *Business Combinations* at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

80 ... It follows that hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group, except for the consolidated financial statements of an investment entity, as defined in FRS 10, where transactions between an investment entity and its subsidiaries measured at fair value through profit or loss will not be eliminated in the consolidated financial statements.

...

103R *Investment Entities* (Amendments to FRS 10, FRS 12 and FRS 127), issued in February 2013, amended paragraphs 2 and 80. An entity shall apply those amendments for annual periods beginning on or after 1 January 2014. Earlier application of *Investment Entities* is permitted. If an entity applies those amendments earlier it shall also apply all amendments included in *Investment Entities* at the same time.