



Room 525, 5/F., Prince's Building, Central, Hong Kong  
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035  
Email: [info@hkab.org.hk](mailto:info@hkab.org.hk) Web: [www.hkab.org.hk](http://www.hkab.org.hk)

香港中環太子大廈5樓525室  
電話：2521 1160, 2521 1169 圖文傳真：2868 5035  
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

18 March 2013

By post and email: [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk)

Mr Simon Riley  
Director, Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
37th Floor, Wu Chung House  
213 Queen's Road East  
Wanchai  
Hong Kong

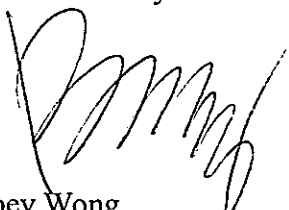
Dear Mr Riley

**IASB's Exposure Draft of Proposed Amendment to IFRS 11 – Acquisition of an Interest in a Joint Operation**

We refer to your letter dated 8 January 2013 inviting our comments on the International Accounting Standards Board's Exposure Draft of Proposed Amendment to IFRS 11 – Acquisition of an Interest in a Joint Operation.

Our comments on the specific questions raised in the exposure draft are attached. Should you have any questions, please do not hesitate to contact our Senior Business Manager Ms Caris Wan at 2521 1855.

Yours sincerely

  
Boey Wong  
Secretary

Enc.

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*Chairman* Standard Chartered Bank (Hong Kong) Ltd  
*Vice Chairmen* Bank of China (Hong Kong) Ltd  
The Hongkong and Shanghai Banking Corporation Ltd  
*Secretary* Boey Wong

主席 渣打銀行（香港）有限公司  
副主席 中國銀行（香港）有限公司  
香港上海匯豐銀行有限公司  
秘書 黃凱儀

**Response of the Hong Kong Association of Banks (“HKAB”) to the Specific Questions  
in the International Accounting Standards Board’s Exposure Draft:  
Acquisition of an Interest in a Joint Operation**

**Question 1 – Relevant Principles**

*The IASB proposes to amend IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.*

*Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?*

We agree that IFRS 11 has not explicitly addressed the acquisition of interests in joint operations or jointly controlled operations or assets that are businesses and support the IASB’s initiative to develop the proposed amendment to IFRS 11.

We support that it is appropriate to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitute a business as defined in IFRS 3 in accordance with the principles on business combinations accounting in IFRS 3 and other IFRSs.

While we agree that the scope of the ED should be narrow so that a ‘quick-fix’ can be achieved, as an interim measure, to reduce diversity in practice, we recognise that there is a need to address as a longer term project other issues that also contribute to the diversity in practice. One of the key issues relates to the definition of ‘business’ under IFRS 3. Since whether the activity of the joint operation acquired constitute a business will result in very different accounting treatment, we believe the increased reliance on the definition of ‘business’ will call for more detailed application guidance; otherwise further diversity in practice will arise.

**Question 2 – Scope**

*The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 to the acquisition of an interest in a joint operation on its formation. However, it should not apply if no existing business is contributed to the joint operation on its formation.*

*Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?*

We have concerns that the proposed scope may be too narrow in that IFRS 11 does not currently address issues arising when no existing business is contributed to the joint operation on its formation. Such issues include how to account for any premium paid to the joint operators share in the assets and liabilities of the joint operation and whether acquisition costs should be expensed or capitalized. In addition, there also exists a question as to how to account for a premium paid when the activities of the joint operation do not constitute a business.

**Question 3 – Transition requirement**

*The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business on or after the effective date.*

*Do you agree with the proposed transition requirement? Why or why not? If not, what alternative do you propose?*

We agree that the proposed amendments should be applied prospectively. Since there is currently no explicit guidance on the accounting for the acquisition of interests in jointly controlled operations or assets in circumstances where the activity of the jointly controlled operations or assets constitutes a business as defined in IFRS 3, there can be significant challenges in obtaining the required information for retrospective application. For example, the acquisition date fair values of the identifiable assets and liabilities might not have been determined previously.