From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Friday, February 08, 2013 7:00 PM
To: Simon Riley; Winnie Chan
Cc: DICKENS Mark; David Graham; Grace Hui; Dorian Chan; Elce Lee; Committee-FRSC
Subject: HKICPA Invitation to Comment on IASB ED on accounting for acquisitions of interests in joint operations (Proposed amendments to IFRS 11) (IASB due date 23 April 2013)

Dear Simon and Winnie,

HKICPA Invitation to Comment on IASB ED on accounting for acquisitions of interests in joint operations (Proposed amendments to IFRS 11) (IASB due date 23 April 2013)

Thank you for the HKICPA letter dated 8 January 2013 on the subject matter addressed to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following comments for your consideration:

It is my understanding that the objective of the proposed amendment is to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, as defined in IFRS 11, in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations.

IFRS 11.20 requires a joint operator to recognize, in relation to its interest in a joint operation, among other things:
(a) Its assets, including its share of any assets held jointly; and
(b) Its liabilities, including its share of any liabilities incurred jointly

In addition, IFRS 11.21 specifies that a joint operator shall account for these assets and liabilities in accordance with the Standards that are applicable. However, neither IFRS 11 nor IAS 31 provided guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. Because of the lack of guidance, it was reported to the attention of the IASB that significant diversity has arisen in practice in the accounting for the acquisition of interests in jointly controlled operations or assets in which the activity of the jointly controlled operations or assets constitute a business, as defined in IFRS 3.

It is my understanding that this type of transaction occurs frequently in upstream oil and gas as well as mining. Such diversity relates to:

(a) The premium paid for the acquisition;
(b) Deferred tax assets and liabilities; and
(c) Acquisition-related costs

The key amendments proposed to reduce the diversity clarifies that the acquisition of an interest in a joint operation that meets the definition of a business in IFRS 3 is not a business combination, as the acquiring party does not obtain control. However, the ED proposes that business combination accounting should be applied to eliminate the diversity in accounting.

To eliminate the diversity the proposals will include:

(i) Measuring identifiable assets and liabilities at fair value;
(ii) Expensing acquisition-related costs;
(iii) Recognizing deferred tax; and
(iv) Recognizing the residual as goodwill.

Companies that conduct significant activity through joint operations could be substantially impacted and will have most significant effect on companies that currently treats (a) the premium paid by allocating to the identifiable assets on the basis of their relative fair values rather than as goodwill (b) not recognizing deferred tax and (c) capitalizing acquisition-related costs.

It was reported that all 15 IASB members approved the proposed amendments.

Given the above, and in particular taking into account the IASB's efforts to attempt to reduce diversity in accounting for these issues by clarifying the principles in the relevant standards, I support the proposed amendments.

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
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