Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

10 May 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of Acquisition of an Interest in a Joint Operation (Proposed Amendment to IFRS 11)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We support the objective of the ED and the effort of the IASB to address the diversity in practice that might arise as neither IFRS 11 nor IAS 31 provide guidance on accounting for an acquisition of an interest in a joint operation. However, we believe that the Board should include comprehensive measurement guidance in IFRS 11 rather than addressing a series of specific measurement issues in a piecemeal approach. By approaching measurement issues in a piecemeal fashion, the Board runs the risk of creating a complex set of rules that may not be internally consistent and may conflict with other standards.

We agree with the proposal that the relevant principles of IFRS 3 be applied to the acquisition of an interest in a joint operation that constitutes a business. However, we are concerned that the proposed amendments would place more emphasis on the definition of a business. We are aware that applying the definition of a business can require considerable judgement in certain circumstances, including, for example, whether a rented property or a single property special purpose vehicle falls within the definition of a business. We are concerned that, without greater clarification of this definition, the ED may not achieve the proposed reduction in diversity in practice. As such, we support the work of the IFRS Interpretations Committee to develop guidance on the application of the definition of a business as part of the IASB's post-implementation review of IFRS 3.

In addition, we consider the ED should propose clear guidance on what is scoped within the term "acquisition of an interest in a joint operation on its formation" and whether and how the proposed amendments are intended to apply to the acquisition of an additional share of a joint operation to which the investor is already a party.

Finally, we would wish the IASB to note our concerns with the recent frequency and number of limited-scope "quick fixes" from the IASB particularly in relation to standards which have not so long been finalized by the IASB. This places extra burdens on national standard setters and preparers, especially if the quick fixes affect processes and computer system changes, they could be problematic and costly for companies to implement. This would particularly be the case if those changes related to the expected credit loss project after it is issued as a final standard. We would like the IASB to raise this concern with the IFRS Due Process Oversight Committee to see whether there may be some additional activity that should be part of the due process (for example, in conducting a wide circulation of a near-final draft of the standard for fatal flaw review prior to finalization) and/or parts of the due process currently in place which may not be working so well in which case through hindsight may be responsible for standard-setting failures that necessitate such subsequent attempts at quick fixes.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Manager of Standard Setting at winniechan@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC

Encl.

Comment on IASB Exposure Draft of Acquisition of an Interest in a Joint Operation (Proposed Amendment to IFRS 11)

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 with the proposal that the relevant principles of IFRS 3 be applied to the acquisition of an interest in a joint operation that constitutes a business. However, we are concerned that the proposed amendments would place additional emphasis on the definition of a business. As such, we support the work of the IFRS Interpretations Committee to develop guidance on the application of the definition of a business as part of the IASB's post-implementation review of IFRS 3.

According to paragraph BC6, the IASB intends to require the application of "all" the relevant principles on business combinations accounting in IFRS 3 for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. However, it is noted that paragraph B33A (a) – (d) only lists some of the principles of IFRS 3 that may be applied. Principles that relate to bargain purchase situations and situations where the consideration is in a form other than cash are not included. To prevent confusion, we recommend that the IASB not to single out individual principles in B33A.

For clarity, we believe that it is sufficient for the proposed amendments to refer to applying "the relevant principles on business combinations accounting in IFRS 3" without referring to "other standards" as we believe all the related IFRS dealing with business combinations accounting are already included in IFRS 3.

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?

Overall, we agree with the proposed amendment. However, we recommend that proposed paragraph B33B be amended to state more clearly what is scoped within the term "acquisition of an interest in a joint operation on its formation". There are various ways in which an investor can acquire an interest in a joint operation, for example, by contribution of an existing business to a joint operation, contribution of cash or other assets when another party contributes an existing business, and acquisition of an interest that constitutes a business on formation. We consider it would be useful to state clearly whether the proposed amendments should be applied to these transactions.

We also recommend that the Board provides clear guidance on whether and how the proposed amendments are intended to apply to the acquisition of an additional share of a joint operation to which the investor is already a party.

It would also be helpful for the IASB to provide guidance on the treatment of an interest in a joint operation that does not constitute a business as to whether a cost allocation approach is required for such acquisitions.

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 with the proposed transition requirement.

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