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HKFRS / IFRS UPDATE 2013/05

ACQUISITION OF AN INTEREST IN A JOINT OPERATION: PROPOSED AMENDMENT TO IFRS 11

STATUS
Exposure draft

EFFECTIVE DATE
To be confirmed

ACCOUNTING IMPACT
May be significant

Background

On 13 December 2012 the International Accounting Standards Board (IASB) published Exposure Draft *ED/2012/7 Acquisition of an Interest in a Joint Operation: proposed amendment to IFRS 11* which sets out proposed amendments to IFRS 11 *Joint arrangements*.

Currently, neither IAS 31 *Interests in Joint Ventures* nor IFRS 11 (which supersedes IAS 31 with effect from 1 January 2013) provide 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 as defined by IFRS 3 *Business Combinations*.

As result, diversity has arisen in practice in relation to the accounting of the acquisition of interests in jointly controlled operations under IAS 31 that meet the definition of a business, such as:

- The premium paid above the fair value of the identifiable net assets being either recognised as a separate asset (ie goodwill), or proportionally allocated to other identifiable assets
- Deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities (except for goodwill) being either recognised or not recognised by virtue of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*
- Acquisition costs either being capitalised or expensed.

The exposure draft has been developed with a focus on explicitly incorporating the principles of IFRS 3 for the purposes of transaction in which the interest in a joint operation which is acquired meets the definition of a business in IFRS 3.

The effective date for the amendments, if finalised, is to be confirmed. The amendments would be required to be applied prospectively with earlier application permitted.

The IASB has requested comments on the Exposure Draft by 23 April 2013. The HKICPA also issued invitation to comment on the ED with comment period ending on 18 March 2013.

Proposed amendments

The proposed amendments are being made to IFRS 11, which will supersede the current guidance in IAS 31 for accounting periods beginning on or after 1 January 2013.

The proposed amendments apply to transactions that are:

- An acquisition of an interest in an existing joint operation that meets the definition of a business
- An acquisition of an interest in a joint operation on its formation, so long as the formation of the joint operation does not coincide with the formation of the business.

The exposure draft proposes amendments to IFRS 11 which clarify that, when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business (as defined by IFRS 3), the accounting would be required to reflect the principles on business combination accounting, which include:

- Measuring identifiable assets and liabilities at fair value other than those items for which exceptions are given in IFRS 3 and other IFRSs
- Recognising acquisition-related costs as expenses (except those that relate to the issue of debt or equity, which are instead recognised in accordance with IAS 32 *Financial Instruments: Presentation*)
- Recognition of deferred tax on initial recognition, except in relation to the initial recognition of goodwill
- Recognising goodwill as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

There is also a proposed consequential amendment to appendix C of IFRS 1 *First-time Adoption of International Financial Reporting Standards,* to clarify that the exemption for past business combinations would also apply to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

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