



## **HKFRS 11 *Joint Arrangements*** **HKAS 28 (2011) *Investments in Associates and Joint Ventures***

### **HKICPA Standard Setting Department Staff Summary (June 2011)**

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### **Introduction**

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1. HKFRS 11 *Joint Arrangements* provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. HKAS 28 (2011) *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
2. Both standards will be effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

### **Reasons for issuing HKFRS 11 and HKAS 28 (2011)**

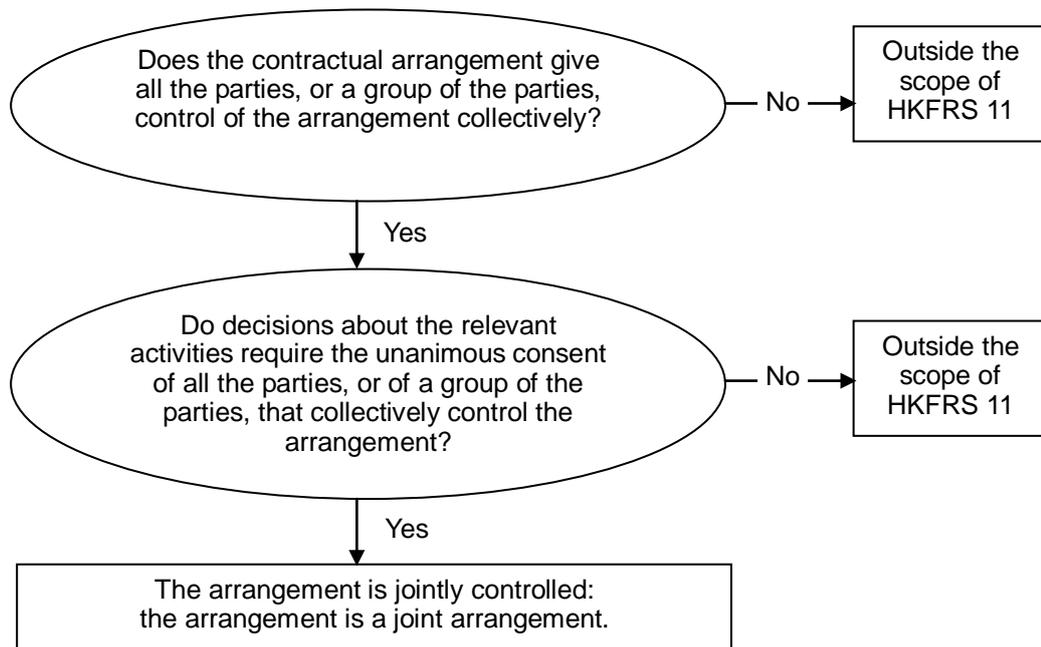
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3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HKFRS 11 and HKAS 28 (2011) is to maintain international convergence arising from the issuance of IFRS 11 and IAS 28 (2011) by the International Accounting Standards Board's (IASB).
4. HKFRS 11 is concerned principally with addressing two aspects of HKAS 31 *Interests in Joint Ventures*: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for interests in jointly controlled entities. HKFRS 11 improves on HKAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

**Main features of HKFRS 11 and HKAS 28 (2011)**

5. Joint arrangement is defined in HKFRS 11 as an arrangement of which two or more parties have joint control. Joint control is further defined as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
6. HKFRS 11 provides guidance in assessing joint control as follows:

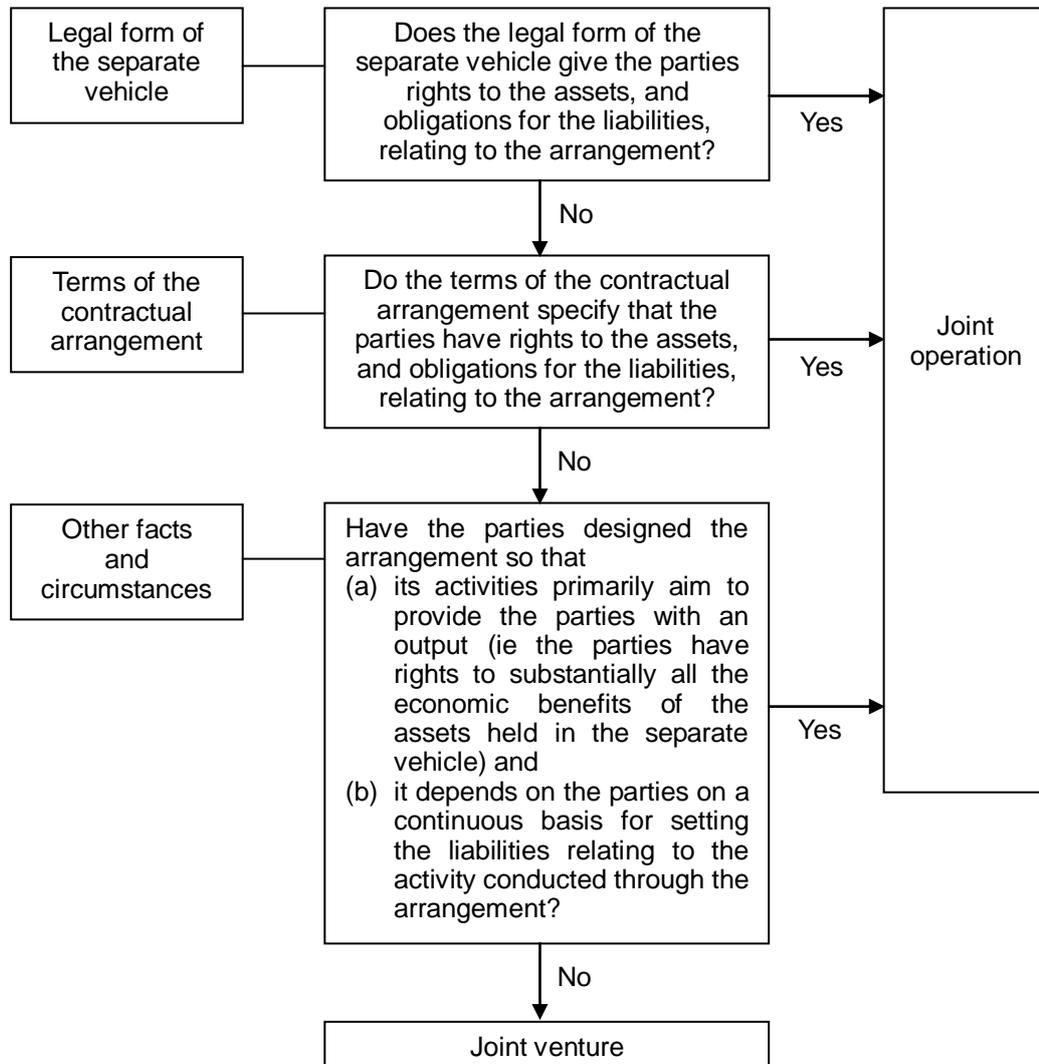
**Assessing joint control**



7. HKFRS 11 classifies joint arrangements into two types – joint operations and joint ventures:
  - A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (that is, joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.
  - A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (that is, joint venturers) have rights to the net assets of the arrangement.
8. An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances.

9. The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle.

**Classification of a joint arrangement structured through a separate vehicle**



10. HKFRS 11 requires a joint operator to recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant HKFRSs applicable to the particular assets, liabilities, revenues and expenses.
11. A joint venturer is required to recognise an investment and to account for that investment using the equity method in accordance with HKAS 28 (2011) (that is, proportionate consolidation is no longer permitted), unless the entity is exempted from applying the equity method.



12. The previous version of HKAS 28 *Investments in Associates* and HKAS 31 requires that when an investor loses significant influence or joint control of an investee, the investor measures any retained investment at fair value. HKAS 28 (2011) is amended which requires that if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.
  
13. An entity shall apply HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with HKFRS 9 *Financial Instruments* unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

#### **Other references on HKFRS 11/IFRS 11**

1. BDO HKFRSs/IFRSs Update  
[http://www.bdo.com.hk/file\\_publication.php/114/BDO\\_HKFRSs\\_Update\\_3\\_2011.pdf](http://www.bdo.com.hk/file_publication.php/114/BDO_HKFRSs_Update_3_2011.pdf)
  
2. Deloitte IFRS in Focus on IFRS 11  
<http://www.iasplus.com/iasplus/1105ifrs11.pdf>
  
3. Ernst & Young 'IFRS Developments' on consolidated financial statements, joint arrangements and disclosure of interests in other entities  
[http://www.ey.com/Publication/vwLUAssets/IFRS\\_Developments\\_Issue\\_1/\\$File/IFRS\\_Developments\\_Issue\\_1\\_GL\\_IFRS.pdf](http://www.ey.com/Publication/vwLUAssets/IFRS_Developments_Issue_1/$File/IFRS_Developments_Issue_1_GL_IFRS.pdf)
  
4. KPMG 'First Impressions: Joint arrangements'  
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/First- Impressions/Documents/First- Impressions-O-1105-Joint-arrangements.pdf>
  
5. KPMG 'In the Headlines' on no more proportionate consolidation for joint ventures  
<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/In-the-headlines/Documents/In-the-headlines-O-201105-15.pdf>
  
6. PricewaterhouseCoopers 'IFRS/HKFRS News Supplement'  
[http://www.pwchk.com/webmedia/doc/634418262516543111\\_hkfrs\\_news\\_may2011\\_sup.pdf](http://www.pwchk.com/webmedia/doc/634418262516543111_hkfrs_news_may2011_sup.pdf)

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