



# Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	<b>27 March 2013</b>
<b>From:</b>	<b>Christina Ng and Kala Kandiah</b>	<b>Agenda Item:</b>	<b>10.1.2</b>
<b>Subject:</b>	<b>Proposed amendments to IFRS 11</b>	<b>File:</b>	

## Action

Subject to consideration of any further comments that might be received from AASB constituents, form preliminary views on the proposals in ED/2012/7 *Acquisition of an Interest in a Joint Operation*, and decide on an approach for finalising the AASB's comment letter.

## Attachments

Agenda paper 10.3 – AASB Exposure Draft ED 234 *Acquisition of an Interest in a Joint Operation* (proposed amendment to IFRS 11)

Agenda paper 10.5 – Submission 1 on ED 234 from CPA Australia and the Institute of Chartered Accountants in Australia dated 22 March 2013

## Background

1. AASB ED 234, which incorporates IASB ED/2012/7, was issued in December 2012. Comments to the AASB on ED 234 were due by 22 March 2013. At the time of writing this memo, one submission has been received (see Agenda Paper 10.5). AASB staff will provide a verbal update if any further submissions are received. Comments to the IASB on ED/2012/7 are due by 23 April 2013.

## Overview of proposals

2. AASB ED 234 proposes to introduce 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 in IFRS 3 *Business Combinations*.
3. The proposed amendment to IFRS 11 *Joint Arrangements* would require a joint operator to account for such an acquisition by applying the relevant principles for business combinations accounting in IFRS 3 and other Standards, and disclose the relevant information required by those Standards for business combinations.
4. The proposed amendment would apply to the acquisition of an interest in an existing joint operation and to the acquisition of an interest in a joint operation on its formation. The

proposed amendment would not apply if the formation of the joint operation coincides with the formation of the business – i.e. when no existing business is contributed to the joint operation on its formation.

5. ED/2012/7 does not propose an effective date (the date will be specified by the IASB in due course). Prospective application is proposed.

### *Preliminary Staff views*

6. Based on outreach performed to large accounting firms in Australia, AASB staff understand that acquisitions of an interest in joint operations are common in Australia, namely in the resources and property industries. Feedback received indicates that the prevalent practice in Australia is that acquisitions involving a pre-existing business have been accounted for in accordance with the requirements of IFRS 3.
7. AASB staff agree with the IASB's proposals and the IASB's rationale in paragraph BC7 of ED/2012/7. This view is consistent with comments received in submission 1 to ED 234 (Agenda Paper 10.5). Furthermore, AASB staff note that the proposals appear to be consistent with the approach Australian constituents have commonly applied in practice.
8. AASB staff also support the IASB's proposal to require the proposed amendments to be applied prospectively based on the rationale provided in paragraph BC11 of ED/2012/7.
9. In addition to the amendments proposed in the ED, AASB staff recommend the IASB considers providing guidance on related issues that have resulted in diversity in practice, for example, the accounting for a step-up of an interest in a joint operation. This comment was also raised in submission 1 to ED 234 (Agenda Paper 10.5). AASB staff acknowledge that the ED is intended to be narrow in scope, and do not suggest delaying the amendments proposed by the ED. Instead, the AASB suggests including proposals to address these related issues in the next set of Annual Improvements.

### **Question to the Board**

Does the Board agree with the AASB staff's preliminary views outlined in paragraphs 6–9 above, pending consideration of any further constituent comments that might be received?

### **Proposed AASB staff project plan**

AASB staff propose that the AASB submissions on ED/2012/7 be finalised out-of-session through the Chairman of the April 2013 AASB meeting.

### **Question to the Board**

Does the Board agree with the AASB staff's proposed project plan?