



Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB members	Date:	26 November 2013
From:	Christina Ng	Agenda Item:	4.5
Subject:	Acquisition of an Interest in a Joint Operation – Project Update	File:	

Action

Receive an update on recent tentative decisions made by the IASB in its Acquisition of an Interest in a Joint Operation project and consider whether there are any issues that need to be raised with the IASB on those tentative decisions at this stage.

Overview of the project

- 1 [IASB ED/2012/7 Acquisition of an Interest in a Joint Operation](#) (incorporated into AASB ED 234 of the same name) was issued in December 2012. The comment period on AASB ED 234 and ED/2012/7 ended on 22 March 2013 and 23 April 2013 respectively. The AASB provided comments on ED/2012/7¹ to the IASB on 23 April 2013.
- 2 ED/2012/7 is one of three related IASB narrow-scope amendments project which commenced as an IFRS Interpretations Committee project (Agenda papers 4.4 and 4.6 deal with the other related narrow-scope projects). ED/2012/7 proposes to introduce guidance in IFRS 11 *Joint Arrangements* 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 will 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, that is, when no existing business is contributed to the joint operation on its formation.

1 The AASB submission on ED/2012/7 is available on the [AASB website](http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_ED-2012-7_Acquisition_of_an_Interest_in_a_JO.PDF) (http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_ED-2012-7_Acquisition_of_an_Interest_in_a_JO.PDF)

- 5 ED/2012/7 does not propose an effective date nor does it indicate that early adoption would be permitted. Prospective application is proposed.

Summary of feedback on ED/2012/7²

- 6 A significant majority of the respondents (including the AASB) agree with the proposals in ED/2012/7.
- 7 The IASB acknowledged the following issues (among others) that were not identified as part of ED/2012/7 and that would require additional guidance. These issues were raised by many respondents, including the AASB.
- (a) Judgement would be required for identifying a business and applying the definition of business in accordance with IFRS 3 when applying the proposed amendment in ED/2012/7³
 - (b) There is diversity in practice on the accounting for additional interest (commonly known as a 'step acquisition') in a joint operation, which is a common transaction in certain industries⁴.

IASB tentative decisions

- 8 At its July 2013 meeting, in the light of the narrow-scope objective, the majority of the Interpretations Committee members recommended that the IASB should proceed with the proposed amendments in ED/2012/7 on the basis that these amendments would significantly reduce diversity in practice and are consistent with the principles of business combinations accounting in IFRS 3 and other IFRSs.
- 9 At its October 2013 meeting, while acknowledging that the Interpretations Committee will address other IFRS 11 application issues as part of a separate project, the IASB tentatively decided to finalise the proposed guidance in ED/2012/7 and clarify that:
- (a) the proposed guidance would apply to:
 - (i) the acquisition of the initial interest in a joint operation, and
 - (ii) the acquisition of additional interests in the same joint operation;
 - (b) the relevant principles on business combinations accounting in IFRS 3 and other IFRSs are the principles on business combinations accounting that would be relevant to the proposed guidance unless those principles conflict with the principles in IFRS 11; and
 - (c) that the proposed amendment in ED/2012/7 will not apply if:

2 The summary feedback is outlined in IASB Paper 12BA of the October 2013 meeting.

3 The Interpretations Committee has recommended that the IASB address this issue as part of its IFRS 3 Post-implementation Review project. This recommendation is consistent with the recommendation mentioned in footnote 3 of Agenda paper 4.4.

4 The Interpretations Committee recommended that this issue (among other IFRS 11 application issues) should be addressed as a separate project, which commenced at its November 2013 meeting (refer Agenda paper 4.2 Issue E3 provides more details).

- (i) no existing business is contributed to the joint operation on formation of that joint operation; and
- (ii) the formation of the joint operation coincides with the formation of the business.

10 At its November 2013 meeting, the IASB tentatively decided the proposed amendments would have a mandatory effective date of 1 January 2015 and would be applied prospectively to transactions occurring in annual periods beginning on or after the effective date. The IASB Work Plan dated 5 November indicates a target standard by Q1 of 2014.

AASB staff recommendation

- 11 AASB staff note that the IASB and Interpretations Committee will be taking steps to address the issues outlined in paragraph 7 above, that is, to address the issues in separate projects and not as part of the narrow-scope project.
- 12 In the light of the IASB's intention to address those issues in paragraph 7 above, AASB staff have not identified any additional issues that are significant enough to warrant them being raised in relation to the IASB tentative decisions mentioned in paragraphs 9(a)-(c) above at this stage. Accordingly, AASB staff do not think there are any issues arising from the October 2013 or November 2013 IASB meetings that need to be raised with the IASB at this stage.

Question for the Board

Do members agree with AASB staff recommendation in paragraph 12 above?
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