

**International Financial Reporting Standard**

# Accounting for Acquisitions of Interests in Joint Operations

**May 2014**

**BASIS FOR CONCLUSIONS – AMENDMENTS**

**[IFRS 11]**

**[Related to AASB 2014-3]**

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## Amendments to the Basis for Conclusions on IFRS 11 *Joint Arrangements*

*This Basis for Conclusions accompanies, but is not part of, the amendments.*

Paragraphs BC45A–BC45N and BC69C and their related headings are added. New text is underlined.

### **Accounting for acquisitions of interests in joint operations**

**BC45A** The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed in accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets, as specified in IAS 31.<sup>2</sup> In particular, the Interpretations Committee noted diversity in practice if the activity of the jointly controlled operations or jointly controlled assets constitutes a business, as defined in IFRS 3.

**BC45B** The principal approaches observed in practice were:

- (a) **IFRS 3 approach:** some preparers of IFRS financial statements, when accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business, applied IFRS 3 and the guidance on business combinations in other IFRSs. Identifiable assets and liabilities were measured, subject to the exceptions in IFRS 3, at fair value and the residual was recognised as goodwill. Furthermore, transaction costs were not capitalised and deferred taxes were recognised on initial recognition of assets and liabilities. Only guidance on business combinations in IFRS 3 and other IFRSs that was not appropriate for the acquisition of an interest in jointly controlled operations or jointly controlled assets was not applied, for example, the guidance on non-controlling interests.
- (b) **cost approach:** others allocated the total cost of acquiring the interest in the joint operation to the individual identifiable assets on the basis of their relative fair values. Accordingly, any premium paid was allocated to the identifiable assets rather than being recognised as goodwill. Transaction costs were capitalised and deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*.
- (c) **hybrid approach:** a third group of preparers of IFRS financial statements only applied the principles on business combinations accounting in IFRS 3 and other IFRSs to issues that were not addressed elsewhere in IFRS. Identifiable assets and liabilities were measured at fair value, with exceptions, and the residual was recognised as a separate asset, ie goodwill. Transaction costs, however, were capitalised and contingent liabilities and deferred taxes were not recognised because

<sup>2</sup> IFRS 11 *Joint Arrangements* shall be applied for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures*.

these issues were considered as being addressed elsewhere in IFRS. Deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12.

BC45C The different approaches have led to different accounting outcomes, in particular:

- (a) in accounting for premiums paid in excess of the value of the identifiable net assets;
- (b) in capitalising or expensing acquisition-related costs; and
- (c) in accounting for deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities.

BC45D The IASB noted that the diversity in practice resulted from the fact that IAS 31 did not give specific guidance on the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets, the activity of which constitutes a business, as defined in IFRS 3. The IASB was concerned that this diversity in practice may continue in the accounting for acquisitions of interests in joint operations, as defined in IFRS 11, when the activities of those joint operations constitute businesses. Arrangements that were formerly ‘jointly controlled operations’ and ‘jointly controlled assets’ in IAS 31 are joint operations in IFRS 11 (see paragraph BC26). As was the case in IAS 31, a joint operator recognises its (share in the) assets, liabilities, revenue and expenses relating to such arrangements.

BC45E The IASB considered the guidance in current IFRS on the acquisition of an interest in a business. The IASB recognised that the acquisition of an interest in a joint operation does not meet the definition of a business combination in IFRS 3. Nonetheless, the IASB concluded that the most appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, is to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS.

BC45F The IASB reached this conclusion because:

- (a) it considers that separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values;
- (b) it thinks that an approach that limits the application of business combinations accounting only to issues that are not addressed elsewhere in IFRS lacks a strong conceptual basis; and
- (c) the guidance in IFRS 3 and other IFRSs on business combinations give a comprehensive and consistent set of accounting principles for the different components of such complex transactions as acquisitions of interests in businesses.

BC45G The IASB also concluded that an entity that is acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, shall disclose the relevant information that is specified in

IFRS 3 and other IFRSs on business combinations. This is because these requirements are an integral part of the financial reporting about the acquisition of interests in businesses.

BC45H Consequently, the IASB amended IFRS 11 to address the accounting for both 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, and the related disclosure requirements, as a means to resolve the diversity in practice.

BC45I The IASB noted that the fact patterns raised with the Interpretations Committee were limited to circumstances involving a business, as defined in IFRS 3. The IASB noted that IFRS already provides guidance for the acquisition of an interest in an asset or a group of assets that is not a business, as defined in IFRS 3. Consequently, the amendments apply only when an entity acquires an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, either on formation of that joint operation or when acquiring an interest in an existing joint operation.

BC45J The Exposure Draft *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), which was published in December 2012, used the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' to describe the principles that have to be applied in accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. In analysing the comment letters on the Exposure Draft, the IASB noted divergent understanding of what the 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' are, within the context of the proposed amendment.

BC45K In order to avoid diversity in practice from the application of the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs', the IASB decided to replace this term with 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS'. In addition, to aid understanding the application guidance includes a non-exhaustive list of five principles related to business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the principles in this IFRS. Four of them relate to the areas in which the Interpretations Committee observed different accounting outcomes from the application of different approaches to the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business (see paragraphs BC45B-BC45C).

BC45L The IASB also noted that the reference to 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs' is ambiguous for acquisitions of additional interests in joint operations that result in the joint operator retaining joint control of the joint operation. It might be understood as a reference to either:

- (a) paragraph 42 of IFRS 3 with the result of remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or

- (b) paragraph 23 of IFRS 10 with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.

BC45M In order to resolve this ambiguity, the IASB decided to clarify that previously held interests in a joint operation are not remeasured if the joint operator retains joint control. Paragraph 23 of IFRS 10 addresses the accounting for the acquisition of an additional interest in a business that is already controlled by the acquirer. This is the analogous transaction to the acquisition of an interest in a business that is already jointly controlled by the acquirer and will continue to be jointly controlled by it. Paragraph 42 of IFRS 3 instead addresses the acquisition of an interest that results in the acquirer obtaining control over the business. This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business.

BC45N The IASB decided to add a scope exclusion for joint operations under common control to the amendments to IFRS 11. The IASB concluded that the amendments to IFRS 11 should not require the application of all of the principles on business combinations accounting for transactions that would be outside the scope of IFRS 3 if control, rather than joint control, would be obtained or retained by the acquirer.

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### **Accounting for acquisitions of interests in joint operations**

BC69C The IASB considered the transition provisions and effective date of the amendments to IFRS 11. The IASB noted that applying all of the principles of business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS to transactions that have previously been accounted for by applying one of the divergent approaches presented in paragraph BC45B might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transaction and in performing the impairment test for goodwill. Consequently, the IASB decided that an entity would apply the amendments to IFRS 11 prospectively for transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.