Grant Thornton

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204, Collins Street
WEST VICTORIA 8007

By Email: standard@aasb.gov.au

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Grant Thornton Australia Limited
ABN 41 127 556 389

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

**T** +61 2 8297 2400
**F** +61 2 9299 4445
**E** info.nsw@au.gt.com
**W** www.grantthornton.com.au

Dear Kevin

**Exposure Draft ED 234 – ED/2012/7 Acquisition of an Interest in a Joint Operation (proposed amendment to AASB 11) - December 2012 - Open for Comment**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 232 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft ED/2012/7 - Exposure Draft - ED 234 Acquisition of an Interest in a Joint Operation (proposed amendment to AASB 11) - December 2012 - Open for Comment (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 23 April 2013, and discussions with key constituents.

We agree that the initial accounting for an interest in a joint operation is not adequately addressed by IFRS 11 at present. We also agree with the broad proposal that IFRS 3's principles should be applied to the extent relevant when an entity purchases an interest in a joint operation whose activities constitutes a business.

However, we are concerned that the ED does not adequately address the complications that stem from the fact that acquiring an interest in a joint operation will usually involve multiple transactions and arrangements. We have also identified various other matters we think should be clarified.

Our detailed comments set out in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

## A. IASB Comments on specific proposals

**Question 1: relevant principles**

**The IASB proposes to amend IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.**

**Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?**

We agree that the initial accounting for an interest in a joint operation is not adequately addressed by IFRS 11 at present. We also agree that the application of IFRS 3 (to the extent relevant) is appropriate for situations in which the reporting entity purchases an interest in a joint operation and the joint operation's activity constitutes a business. In those cases we agree that the reporting entity should initially recognise its share of the assets and liabilities held jointly at their fair value. A possible example of such a situation is a purchase of an interest in a producing oil or gas field.

However, additional clarity is needed on some other matters. We note that a joint operation is a type of an "arrangement" and may or may not be structured through a separate vehicle, rather than an investment in another entity. Often, where a separate vehicle is involved, the classification as a joint operation will be determined by other contractual arrangements and/or other facts and circumstances (such as a commitment to take a share of the output).

Accordingly, an entity does not normally become a joint operator simply by acquiring an interest. It must also enter into a contractual arrangement that confers joint control and, in many cases, to other contractual arrangements and commitments that confer rights to the assets and obligations for liabilities. In other words, acquiring an interest in a joint operation involves multiple transactions and arrangements. The ED does not seem to acknowledge this or address the resulting accounting consequences.

We suggest that the following aspects of accounting for the "acquisition of an interest in a joint operation" should also be clarified:

- it not clear to us whether the proposed IFRS 3-based accounting is intended to apply to all situations in which an entity becomes a joint operator of a joint operation (by entering into a relevant arrangement), or only a particular sub-set in which an interest in a joint operation is "acquired"
- in assessing whether a joint operation's activities constitute a business for the purpose of this proposed amendment, clarity is needed as to whether the assessment of IFRS 3's definition of a business considers only the inputs, outputs and processes in the acquired interest, or all of the activities encompassed by the arrangement
- we note than a joint arrangement can involve assets and liabilities held directly by the joint operator as well as assets and liabilities held or incurred jointly (as acknowledged in paragraph 20 of IFRS 11). Is it not clear whether the proposed IFRS 3-based

accounting is intended to apply to all the assets and liabilities encompassed by the arrangement, or only those within the acquired interest.

**Question 2: scope**
**The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 to the acquisition of an interest in a joint operation on its formation. However, it should not apply if no existing business is contributed to the joint operation on its formation.**

**Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?**

We are not convinced that, in principle, IFRS 3-based fair value accounting should apply to assets and liabilities contributed to a joint operation by the reporting entity. In such a situation the reporting entity holds the assets and liabilities before the contribution, and in substance holds a share of the same assets and liabilities after the contribution. The arrangement is classified as a joint operation on the basis that the joint operator retains direct rights to the assets and direct obligations for the liabilities. The substance of such a transaction therefore appears to a part-disposal of assets and liabilities, rather than an acquisition. The reporting entity acquires (a share of) assets and liabilities contributed by the other joint operator(s).

We therefore think that reporting entity should in principle recognise its retained interest in assets and liabilities that it contributed on a predecessor basis, and its share of assets and liabilities contributed by other parties at fair value. The fair value of assets and liabilities contributed by the reporting entity is part of the consideration to the extent that other parties obtain a share of them.

As a drafting matter, we also note that proposed paragraph B33B (which states: "Paragraphs 21A and B33A apply to the acquisition of an interest in a joint operation on its formation, except when there is no existing business") is not quite consistent with the description in the question. We suggest amending B33B along the lines: "Paragraphs 21A and B33A also apply to transactions in which an existing business is contributed to a joint operation on its formation."

**Question 3: transition requirements**
**The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business on or after the effective date.**

**Do you agree with the proposed transition requirements? Why or why not? If not, what alternative do you propose?**

We agree.

## B. AASB invitation to comment questions

**Question 1 - Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- **a not-for-profit entities; and**
- **b public sector entities – including any implications for GAAP/GFS harmonisation.**

We are not aware of any regulatory issues.

**Question 2 - Whether, overall, the proposals would result in financial statements that would be useful to users.**

We agree that the proposals would result in financial statements that would be useful to users.

**Question 3 - Whether the proposals are in the best interests of the Australian economy.**

We agree that the proposals are in the best interests of the Australian economy.

**Question 4 - Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

We have no further comment.