



**Australian Government**

**Australian Accounting  
Standards Board**

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23 April 2013

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Hans

**AASB comments on IASB Exposure Draft ED/2012/7**  
***Acquisition of an Interest in a Joint Operation***

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IASB Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation*. In formulating its views, the AASB sought the views of its constituents. The comment letters received are published on the AASB's website.

The AASB is supportive of the IASB proposal to amend IFRS 11 *Joint Arrangements* to require a joint operator to account for (including to make disclosures about) 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*) by applying the relevant principles for business combinations accounting in IFRS 3 and other standards.

The AASB is also supportive of the IASB proposal to apply the proposed amendment to IFRS 11 to the acquisitions of an interest in an existing joint operation on its formation but not if no existing business is contributed to the joint operation on its formation.

In addition to the proposals, the AASB recommends that the IASB considers providing guidance on related issues that have also resulted in diversity in practice, such as the accounting for a step-up of an interest in a joint operation.

Furthermore, given the proposals are predicated on determining whether the activities of a joint operation constitute a business (as defined in IFRS 3), the AASB recommends the IASB considers providing additional guidance on the application of that definition. The AASB is aware that applying the definition of a business requires considerable judgement in certain circumstances, including whether early mining explorative activities involve sufficient processes that would satisfy the definition.

This is consistent with the AASB's comment letter on IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate of Joint Venture*, which is also predicated on a clear understanding of the meaning of a business.

Our views are explained in more detail in the Appendix.

If you have queries regarding any matters in this submission, please contact Christina Ng (cng@asb.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. O'Grady', written in a cursive style.

John O'Grady  
Deputy Chairman

## APPENDIX

### **Detailed comments on IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation***

#### **Question 1 of ED/2012/7 – Proposal to account for the acquisition of an interest in a joint operation that constitutes a business by applying the relevant principles on business combinations in IFRS 3 and other Standards**

The AASB supports the IASB's rationale in paragraph BC7 of ED/2012/7 for amending IFRS 11 *Joint Arrangements* to require a joint operator to account 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*) by applying the relevant principles for business combinations accounting in IFRS 3 and other standards.

The AASB is also supportive of the IASB proposal to require disclosure of the relevant information required by those Standards for business combinations. This is because those disclosures are an integral part of the financial reporting about the acquisition of interests in businesses.

However, the AASB considers it critical that the IASB also provides further guidance on the application of the definition of a business, to complement the proposals in ED/2012/7 (this is explained in 'Other comments' below).

#### **Question 2 of ED/2012/7 – Proposal to apply the amendment to the acquisition of an interest in a joint operation on its formation, but not if no existing business is contributed to the joint operation on its formation**

The AASB supports the proposal to apply the proposed amendment to IFRS 11 to the acquisition of an interest in a joint operation on its formation but not if no existing business is contributed to the joint operation on its formation. However, the AASB considers there are also other, related, types of acquisition transactions that have resulted in divergent practice that should also be resolved (this is explained in 'Other comments' below).

#### **Question 3 of ED/2012/7 – Proposal to apply the amendment prospectively**

The AASB supports the proposed amendment being required to be applied 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, and particularly supports permitting early application. This is because the AASB considers the proposed amendments to IFRS 11 would improve financial reporting, and therefore, the improved information should be available to users as soon as possible.

## APPENDIX

### Other comments

In addition to the proposals in ED/2012/7, the AASB recommends that the IASB considers providing guidance on related substantive issues that have also resulted in diversity in practice, for example, the accounting for a step-up of an interest in a joint operation, given the frequency of such transactions.

The acquisition of an interest in joint operations that constitute a pre-existing business is common in Australia, particularly in the resources and property industries. The AASB notes that the issue being addressed by the IASB's proposals are fundamentally related to the definition of a business under IFRS 3. Accordingly, in addition to the proposed amendments, and consistent with the AASB's comment letter on IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, the AASB recommends that the IASB considers providing further guidance on the application of the definition of a business. The AASB is aware that applying the definition of a business as defined in IFRS 3 requires considerable judgement, particularly in the industries mentioned. For example, debates frequently arise around the question of whether early mining explorative activities would satisfy the definition of a business, including whether there are sufficient processes in place.

Given the proposals in ED/2012/7 are predicated on determining whether the activities of a joint operation meet the meaning of a business (as defined in IFRS 3), it would be useful if the IASB could clarify the circumstances in which an acquisition relates to a business.