



Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

2 May 2013

Dear Kevin

**Re: Submission on AASB ED 232 and ED 234**

I am enclosing a copy of PricewaterhouseCoopers' response to the following International Accounting Standards Board's Exposure Drafts:

- ED 232 (IASB ED/2012/6) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to AASB 10 and AASB 128)*
- ED 234 (IASB ED/2012/7) *Acquisition of an Interest in a Joint Operation (proposed amendment to AASB 11)*

The letter reflects the views of the PricewaterhouseCoopers (PwC) network of firms and as such includes our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 3574 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gordon Thomson', is written over a light blue circular stamp.

**Gordon Thomson**  
Partner, PricewaterhouseCoopers

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International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

22 April 2013

Dear Sir/Madam

**Exposure Draft ED/2012/6 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

**and**

**Exposure Draft ED/2012/7 – Acquisition of an Interest in a Joint Operation  
(collectively the “Exposure Drafts” or “EDs”)**

We are responding to your invitation to comment on the Exposure Drafts on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Drafts. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We welcome the opportunity to comment on the Board's proposals to improve accounting for joint arrangements. We have combined our responses on these two exposure drafts as we believe that the Board should include comprehensive measurement guidance in IFRS 11 'Joint Arrangements' rather than embark on a series of narrow scope amendments. We set out the rationale for our proposal in this cover letter. Should the Board proceed with the narrow scope amendments we have answered the specific questions in the invitation to comment in the attached appendices.

IFRS 11 focuses on the classification of joint arrangements and refers to other relevant standards for measurement. We understand the conceptual basis for this approach but significant difficulties with measurement are arising in practice, particularly for joint operations.

The need for additional guidance is evidenced both by the issues in the Exposure Drafts and the request for educational materials from the Staff. We understand that the educational materials will deal primarily with classification and the measurement aspects of accounting for joint operations, particularly when these are in a separate vehicle but classified as a joint operation on the basis of other facts and circumstances. The examples and explanations expected in the educational materials may, de facto, create rules for measurement that have not been subject to appropriate due process. Any new measurement guidance should be subject to the normal due process requirements.

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The Exposure Drafts are narrow in scope, addressing specific measurement issues that have been highlighted recently in practice. The educational materials are expected to address specific questions that have been shared with the staff of the IASB. By approaching measurement issues in a piecemeal fashion, the Board runs the risk of creating a complex set of rules that may not be internally consistent and may conflict with other standards.

We are concerned that this approach will:

- extend the period over which specific measurement issues are resolved;
- exclude valid measurement issues that have not yet been brought to the attention of the Board;
- prevent the Board from assessing the consistency of the measurement approach; and
- create the potential for accounting arbitrage to the extent classification or legal form is emphasised over the economic substance of an arrangement.

Each step in a piecemeal approach is likely to add complexity for preparers without adding sufficiently to the decision useful qualities of the financial information and may create additional confusion for users in some cases. For example, ED/2012/6 addresses contribution of a business to a joint venture in which an investor retains joint control, but does not address the contribution of a business to a joint operation which may or may not have similar economic substance. Further the ED/2012/7 addresses the acquisition of an interest in a joint operation that constitutes a business, but does not address the consistency or interaction of that guidance with other aspects of IFRS such as other aspects of IFRS3, the interaction of IFRS 3 and IAS 12, or the disposal guidance in IAS27.

We suggest that the Board perform a holistic review of the measurement principles applicable to joint arrangements and consider providing principles and guidance that will allow for consistent treatment of transactions with similar economic substance.

Our responses to the specific questions in the Exposure Drafts are attached as Appendix 1 (for ED/2012/6) and Appendix 2 (for ED/2012/7) to this letter.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497), or Mary Dolson (020 7804 2930).

Yours faithfully

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers



## **Appendix 1 - Detailed response to ED/2012/6 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

Please refer to our cover letter. We would prefer that the Board address measurement guidance for joint arrangements in a comprehensive manner. However, we have provided our responses to the detailed questions below, should the Board continue with the narrow scope amendments.

### **Question 1**

**The IASB proposes to amend IFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised only to the extent of the unrelated investors' interests in the associate or joint venture. The consequence is that a full gain or loss is recognised on the loss of control of a subsidiary that constitutes a business, as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee. Do you agree with the amendment proposed? Why or Why not? If not, what alternative do you propose?**

We agree with the proposal to differentiate the level of gain and loss recognition between the contribution or sale of a business and assets that do not constitute a business to a joint arrangement or an associate. However, we believe the current proposals place too much emphasis on legal form, as follows:

- The proposed amendments to IFRS 10 focus on the loss of control of a subsidiary. This aligns the amendments with the scope of IFRS 10 but seems to limit application of the guidance to sales or contributions of a business within a legal entity.
- The proposed amendments to IFRS 10 and IAS 28 (2011) specify application to joint ventures but are silent to the treatment of similar transactions between an investor and a joint operation.

We suggest revising IFRS 10 and amending IFRS 11 to require that the proposed treatment is applicable to all businesses contributed to joint arrangements or associates where there is similar economic substance as part of a comprehensive project on measurement guidance.



## **Question 2**

**The IASB proposes to amend IAS 28 (2011) so that:**

- a) the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3; and**
- b) the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full.**

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

Please refer to our response to Question 1 above as it addresses the proposed amendments to both IFRS 10 and IAS 28 (2011).

## **Question 3**

**The IASB proposes to apply the proposed amendments to IFRS 10 and IAS 28 (2011) prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective. Do you agree with the proposed transition requirements? Why or why not? If not, what alternative do you propose?**

We agree with the proposed transition requirements for prospective application.



## **Appendix 2 - Detailed response to ED/2012/7- Acquisition of an Interest in a Joint Operation**

Please refer to our cover letter. We would prefer that the Board address measurement guidance for joint arrangements in a comprehensive manner. However, we have provided our responses to the detailed questions below, should the Board continue with the narrow scope amendments.

### **Question 1**

**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 believe that the Board should provide improved measurement guidance on the accounting for joint arrangements, in particular joint operations, as we explain in our cover letter. We understand the conceptual basis on which the Board has reached its conclusions but we are not supportive of the amendments in their current form.

The proposed amendments will expand the application of IFRS 3 to transactions that are not business combinations. It will put further pressure on an aspect of business combinations accounting that is challenging in the fact pattern that commonly occurs in the relevant transactions just as the Board is planning its post-implementation review of IFRS 3. The proposed amendments would cause a significant change in practice across many IFRS preparers. It will create complexity for preparers of financial statements without adding sufficiently to the decision useful qualities of the related financial information.

The basis for conclusions to the proposed amendments states that all relevant principles of IFRS 3 should be applied. However, the proposed amendments seem to address a narrower set of accounting questions, for example, providing guidance on a single transaction but not a series of transactions or a series of discrete successive purchases. The proposed amendments are also silent as to other aspects of IFRS 3 that may well be relevant.

We explain our views further below.

#### *Expanded use of IFRS 3*

We agree that there is diversity in how an acquisition of an interest in a joint operation where the activity of the joint operation constitutes a business as described under IFRS. We use the term 'joint operation acquisition' in this letter for ease of reading. However, we have observed less diversity in how such transactions are actually measured.

Most joint operation acquisitions, under IFRS, result in the fair value of consideration paid allocated to the fair value of the assets acquired and identifiable liabilities assumed with little or no goodwill being recognised. This seems to be the most common measurement outcome under IFRS whether a joint



operation acquisition is described as an asset transaction or a business combination. If a joint operation acquisition is described as a business combination, some deferred tax might be recognised but the corresponding adjustment may then be absorbed into the fair value of assets.

There may be a significant difference between the book value assigned to the assets and the tax basis in the assets in a joint operation acquisition when the transaction is non-taxable; that is, the acquirer does not get a new basis in the acquired assets. The initial recognition exemption in IAS 12 would not apply in the proposed amendments and thus, there may be very substantial deferred tax liabilities to recognise, particularly when tax rates in the jurisdiction are high. The requirement to recognise a deferred tax liability will create a significant amount of goodwill. This goodwill may be difficult to support on economic terms because there are seldom synergies or unrecognised assets such as a workforce.

The interaction of IFRS 3 (2008) and IAS 12 is an aspect of the converged business combinations standards that has created difficulty for IFRS preparers and puts significant pressure on the definition of a business because of the substantially different accounting outcome between business combination and asset accounting. The IASB had undertaken a project to replace IAS 12 that would have eliminated the initial recognition exemption and largely converged the measurement of deferred taxes between IFRS and US GAAP. This project was expected to be completed by the time IFRS 3 (2008) was effective.

### *Principles of IFRS 3*

The basis for conclusions states that 'all relevant principles on business combinations accounting should be applied'. The proposed amendments address certain relevant aspects but not others. It is unclear why there is no discussion of, for example, the accounting for a previously held interest, contingent liabilities and contingent consideration.

For example, many joint operation acquisitions may have contingent liabilities associated with them and sellers often retain royalty type interests that may be a form of contingent consideration. These aspects may also be relevant to the appropriate measurement of an interest in a joint operation.

IFRS 3 requires that a previously held interest is re-measured to fair value on obtaining control of a business. A participant in a joint operation may increase its interest in the joint operation or may take control of the joint operation. Questions have arisen as to whether the existing interest in either case should be re-measured to fair value. We believe there may already be some diversity in practice on this point.

Failure to consider and discuss all of the potentially relevant requirements of IFRS 3 and its application to joint operation acquisitions may well create further diversity in practice. Some readers will understand that only the specific requirements in B33A apply and others may assume that all aspects of IFRS 3 should be applied.



### Question 2

**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 unclear as to the distinction that the Board has drawn between the acquisition of an interest in a joint operation at its formation or subsequently. We do not see that there would be a difference.

### Question 3

**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 requirement? Why or why not? If not, what alternative do you propose?**

We agree with the proposed transition requirements for prospective application.