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IFRS Global office
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IFRS in Focus
IASB proposes limited scope amendment to IFRS 11

Contents

The Bottom Line

- The proposals, if finalised, would amend IFRS 11 such that a joint operator would apply the relevant principles for business combination accounting in IFRS 3 when acquiring an interest in a joint operation that constitutes a business.
- The proposals would apply to both the acquisition of an interest in an existing joint operation that is a business and the contribution of a business when a joint operation is formed.
- The proposals would be applied prospectively from the effective date of the amendment.
- Comments on the proposals are due by 23 April 2013.

Introduction

The International Accounting Standards Board (IASB) has published exposure draft ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11) ('the ED') proposing guidance on the accounting by joint operators for the acquisition of an interest in a joint operation, as defined in IFRS 11 *Joint Arrangements*, when the activities underlying the joint operation constitute a business.

Observation

The IASB's outreach regarding the prevalence of these type transactions revealed they are common in the extractive industries. However, many industries may be affected by the proposals, including real estate, construction, automotive, and telecommunications.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

The proposals

Neither IAS 31 *Interests in Joint Ventures* nor IFRS 11, which supersedes IAS 31 with effect from 1 January 2013, explicitly address the accounting for the acquisition of an interest in a joint operation that constitutes a business. As a result, the IASB identified divergent practice in the accounting treatment for, in particular:

- the premium paid for the acquisition;
- deferred tax assets and liabilities; and
- acquisition-related costs.

The IASB is proposing an amendment to IFRS 11 to address this diversity.

> **Observation**
> The IASB tentatively decided not to amend the currently mandatorily effective IAS 31 given that this standard would be superseded by IFRS 11 before any proposed amendment became effective.

IFRS 11 amendment

The ED proposes application of the principles for business combination accounting in IFRS 3 *Business Combinations* in accounting for the acquisition of an interest in a joint operation that meets the definition of a business in that standard. The principles for business combination accounting include:

- measurement of identifiable assets and liabilities at fair value;
- recognition of acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received;
- recognition of deferred taxes arising from the initial recognition of assets and liabilities other than goodwill; and
- recognition of the excess of consideration transferred over identifiable assets acquired and liabilities assumed as goodwill.

The disclosure requirements specified in IFRS 3 and other IFRSs for business combinations would also apply.

> **Observation**
> The IASB acknowledged that the acquisition of an interest in a joint operation that meets the definition of a business is not a business combination within the scope of IFRS 3 as the acquiring party does not obtain control. However, the IASB believed that the principles for business combination accounting should apply.

The proposals, if finalised, would not only apply to the acquisition of an interest in an existing joint operation, but also to the acquisition of an interest in a joint operation on its formation. The ED is not intended to address the accounting for an interest where a joint operation is formed coincidental to the formation of a business.

> **Observation**
> The ED does not specify whether the proposals only apply to the initial interest acquired in the joint operation, or likewise, would apply to subsequent interests acquired.

Transitional provisions and IFRS 1 consequential amendment

The ED proposes that the amendment be applied prospectively to acquisitions of interests in joint operations occurring after its application, along with a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* affording the same relief to first-time adopters.

Effective date and comment period

The ED does not specify an effective date. The IASB will determine the effective date after considering the comments received on the ED.

Comments on the ED are due by 23 April 2013.

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