

Mr Hans Hoogervorst  
Chairman  
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Email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

23 April 2013

Dear Mr Hoogervorst

## **Exposure Draft ED 2012/7 – Acquisition of an Interest in a Joint Operation**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Acquisition of an Interest in a Joint Operation* ('the exposure draft').

We welcome the IASB's initiative to address the lack of guidance in IFRS 11 in this area and agree that application of the principles of IFRS 3 is an appropriate methodology when the joint operation constitutes a business. However, we note that distinguishing between transactions on this basis (as would also be the case under the similar proposals of Exposure Draft ED 2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*) places additional emphasis on the definition of a business. As such, we support the work of the IFRS Interpretations Committee to produce additional guidance on the meaning and application of this concept as part of the IASB's post-implementation review of IFRS 3.

However, we note that the scope of the exposure draft is limited and, as such, does not provide guidance on a number of common transactions in which interests in joint operations are acquired. We believe that these common transactions should be addressed as a matter of urgency. In addition, the implications of the proposals for other transactions (particularly the contribution of an existing business to a joint operation) need to be made clearer.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', written in a cursive style.

Veronica Poole  
Global IFRS Leader  
Technical

## Appendix

### Question 1: Relevant principles

We agree with the proposal that the relevant principles of IFRS 3 be applied to the acquisition of an interest in a joint operation that constitutes a business as this approach can provide a more faithful representation of the transaction than a cost allocation approach, particularly by recognising any premium paid as goodwill rather than by increasing the carrying amount of individual assets to above the investor's share of their fair value. However, we note that distinguishing between transactions on this basis places more emphasis on the definition of a business. As such, we support the work of the IFRS Interpretations Committee to develop additional guidance on the meaning and application of this concept as part of the IASB's post-implementation review of IFRS 3.

As a point of detail, it would be helpful to specify which 'other IFRSs' are referred to in proposed paragraph 21A of IFRS 11.

### Question 2: Scope

We agree with the inclusion of the acquisition of an interest in a joint operation on its formation (as well as the acquisition of an interest in an existing joint operation) within the scope of the proposals, because we agree that the guidance in IFRS 3 is equally relevant to both transactions. However, we recommend that proposed paragraph B33B be amended to state more clearly what is encompassed by the term 'acquisition of an interest in a joint operation on its formation' (presumably, contribution of an existing business to a joint operation and contribution of cash or other assets when another party contributes an existing business).

We note, however, that this would appear to result in consideration for an acquisition being measured at the full fair value of an existing business contributed to a joint operation (i.e., an exception to the partial gain or loss recognition requirements of paragraph B34), in individual assets and liabilities within the business being remeasured to their fair values on contribution to the joint operation and in the recognition of goodwill relating to the previously controlled business. If this is the intention of the Board, it should be stated clearly with an appropriate justification in the Basis for Conclusions. In addition, we believe that a numerical example of such a transaction would be a helpful companion to the example included in the exposure draft (as a point of detail, we also suggest that that example should specify that the joint operation in which an interest is acquired constitutes a business).

We also note that the exposure draft provides no guidance on the treatment of a number of common transactions:

- acquisition of an interest in a joint operation that either does not constitute a business or that constitutes a business created on formation (it would be useful to state that a cost allocation approach is required for such acquisitions and the Basis for Conclusions should address why the Board believes that it is appropriate to exclude the latter transaction from the scope of the proposed changes);
- the gain or loss to be recognised on contribution of an asset (or group of assets) that does not constitute a business on formation of a joint operation (it would be useful to clarify whether the requirements of paragraph B34 apply to such a contribution); and
- the acquisition of an additional share of a joint operation to which the investor is already party (such transactions are common in the mining industry in some jurisdictions). It is unclear whether and how the proposed amendments are intended to apply to these transactions.

## **Question 3: Transition requirement**

We agree that the amendments should be applied prospectively, with a consequential amendment to IFRS 1, for the reasons expressed in the basis for conclusions of the exposure draft. If further guidance is provided on the treatments of transactions outside the scope of the exposure draft, the Board should consider whether any need for transitional relief (including for first-time adopters) arises from that guidance.