ED/2012/7
Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)

Peter Zimniok

Public Discussion

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Outline

1. Background of ED/2012/7
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3. IASB´s Questions

1. Background of ED/2012/7 (1/2)

- IAS 31 *Interests in Joint Ventures* / IFRS 11 *Joint Arrangements*: no guidance on the accounting by a joint operator for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business
- Observable diversity in practice: business combination accounting vs. accounting for an acquisition of a group of assets
- Resulting differences: accounting for premiums paid for synergies (recognition of goodwill) and for deferred tax assets or liabilities and capitalising or expensing acquisition-related costs
- IFRS IC: started consideration of this issue in July 2012
- IASB: started limited scope project in September 2012

1. Background of ED/2012/7 (2/2)

- Main IASB-views:
  - Separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values.
  - The guidance in IFRS 3 and other Standards on business combinations gives a comprehensive and consistent set of accounting principles for the different components of the transaction.
- Scope of the limited amendments:
  - Acquisition of an interest in an existing joint operation
  - Acquisition of an interest in a joint operation on its formation
  - Amendments do not apply if the formation of the joint operation coincides with the formation of the business (no existing business is contributed)

2. Content of ED/2012/7 (1/5)

- Amendments published on 13 December 2012
- Comments to be received by 23 April 2013
- Addition of guidance, 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, has to apply the relevant principles for business combinations accounting in IFRS 3 and other Standards, and has to disclose the relevant information required by those Standards.
- Unanimous approval, no alternative views
- Proposed amendments would be applied prospectively
- Effective date will be determined after evaluating the comments received

2. Content of ED/2012/7 (2/5)

Proposed amendments to IFRS 11 in detail:

- Addition of a clarification that IFRS 3 has to be applied:
  - IFRS 11.21A: *When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 Business Combinations, it shall apply, to the extent of its interest according to paragraph 20, the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and disclose the relevant information that is required in those IFRSs for business combinations. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33B.*
- Addition of corresponding application guidance:
  - IFRS 11.B33A: *When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, it shall apply, to the extent of its interest according to paragraph 20, the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and disclose the relevant information required by those IFRSs for business combinations. The principles on business combinations accounting include:*

2. Content of ED/2012/7 (3/5)

(a) measuring identifiable assets and liabilities at fair value other than those items for which exceptions are given in IFRS 3 and other IFRSs;

(b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with IAS 32 Financial Instruments: Presentation and IFRS 9;

(c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill; and

(d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill.

– IFRS 11.B33B: *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.*

2. Content of ED/2012/7 (4/5)

- Addition of the related transition guidance:
  - IFRS 11.C14A: *Acquisition of an Interest in a Joint Operation (Amendment to IFRS 11) issued in [date] amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33B, C1AA and headings. An entity shall apply that amendment prospectively for acquisitions of interests in joint operations from the beginning of the first period for which it applies that amendment. Consequently, amounts recognised for acquisitions of interests in joint operations in prior periods shall not be adjusted.*

2. Content of ED/2012/7 (5/5)

Proposed consequential amendment to IFRS 1:

- Extension of the exemption for past business combinations:
  - IFRS 1.C5: *The exemption for past business combinations also applies to past acquisitions of investments in associates, ~~and of~~ interests in joint ventures <u>and interests in joint operations in which the activity of the joint operation constitutes a business.</u> Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.*
- Addition of the related transition guidance :
  - IFRS 1.39M: *Acquisition of an Interest in a Joint Operation (Amendment to IFRS 11) issued in [date] amended paragraph C5. An entity shall apply that amendment for annual periods beginning on or after [date]. If an entity applies related amendments in IFRS 11 from Acquisition of an Interest in a Joint Operation (Amendment to IFRS 11) for an earlier period, the amendment to paragraph C5 shall be applied for that earlier period.*

3. IASB´s Questions (1/3)

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?

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed amendment

3. IASB´s Questions (2/3)

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?

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed scope

3. IASB´s Questions (3/3)

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

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed transition requirements

Thank you!

Peter Zimniok

DRSC e.V.
Zimmerstr. 30
10969 Berlin

Tel. 030 / 20 64 12 19
Fax 030 / 20 64 12 15

www.drsc.de
zimniok@drsc.de