



**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: February 2006, London
Project: Business Combinations II
Subject: Joint Ventures (Agenda Paper 3A)

INTRODUCTION

1. The Business Combinations Exposure Draft (BC ED) proposed excluding from the scope of its guidance the formation of joint ventures. In January, the Boards affirmed the staff's view that they could reach an informed decision on this issue based solely on an analysis of comments by respondents. In accordance with due process guidelines, this paper presents a summary of previous Board decisions and the basis for them and an analysis of the comments received. In February, the Boards will be asked to affirm the decision not to consider the accounting for joint ventures in this phase of the project and, therefore, to exclude the formation of joint ventures from the application of the acquisition method in the business combinations standard.

SUMMARY OF COMMENTS RECEIVED

2. Few respondents commented on the exclusion of joint ventures from the scope of the BC ED. Of those that responded, some agreed that joint ventures should be excluded from the scope of the BC standard. Others stated that there is a need for guidance on the

accounting for joint ventures and that they were disappointed that the issue was not addressed in the BC ED.

3. For example, KPMG stated:

We believe that the proposed scope exceptions are appropriate including the exceptions for the formations of joint ventures and combinations involving entities under common control. The accounting for those transactions is an area where practice issues frequently arise. Accordingly, we support the Boards' intentions to consider those issues in a future project that will address whether, and, if so, when to apply a new basis of accounting to these entities. (CL #88)

4. PwC stated:

It would also be helpful for the Boards to develop a common definition of a joint venture, since the formation of a joint venture is specifically excluded from the scope of the proposed standard. We believe that the guidance in paragraphs 4 through 7 on identifying a business combination could easily encompass a joint venture. Although we understand the Boards' desire to avoid addressing joint ventures at this time, we believe that in order to exclude joint ventures from the scope of the new standard and to achieve convergence, the Boards must define the difference between the creation of a joint venture and a business combination so that consistency of application can be achieved. (CL #66)

SUMMARY OF PREVIOUS BOARD DECISIONS

5. IFRS 3 *Business Combinations* and FASB Statement No. 141, *Business Combinations*, both exclude the formation of joint ventures from the scope of their guidance. The Boards carried over that scope exclusion into the BC ED. The Boards decided that the definition of a joint venture and the accounting for joint ventures should be considered more broadly in a later phase of the business combinations project or in a separate project that will address whether, and, if so, when to apply a new basis of accounting.

STAFF ANALYSIS AND RECOMMENDATION

6. The staff acknowledge that guidance on the accounting for a joint venture upon its formation is needed. However, the staff continue to believe that the accounting for joint ventures should be addressed more broadly outside of the current phase of the business combinations project.
7. In response to PwC's concern, the staff do not believe that the Boards need to develop a common definition of joint venture in this phase of the business combinations project. The objective of this phase of the project is to develop improved guidance for applying

the acquisition method of accounting. The Boards have acknowledged that differences may exist between the transactions that will result in the application of the acquisition method under IFRSs and under US GAAP because of differences between the IASB and FASB definitions of control. However, the Boards agreed that issue is outside of the scope of the current phase of this project. Similarly, the staff believe that developing a common definition of joint control/joint venture also is outside of the scope of the current phase of this project.

8. The staff also note that the IASB is considering the definition of a joint venture in its short-term convergence project on the accounting for interests in joint ventures, primarily to improve the guidance for distinguishing between a joint venture and an undivided interest in the assets and liabilities of a joint arrangement. Agenda Paper 10A for the December 2005 IASB meeting provides a comparison of the existing IFRS and US GAAP guidance on accounting for interests in joint ventures, including the differences between the definition of a joint venture in IAS 31 *Interests in Joint Ventures* and the description of a corporate joint venture in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Although the short-term convergence project being undertaken by the IASB could lead to a definition of a joint venture that is the same as that in US GAAP, that is not the objective of the project.
9. Therefore, the staff recommend that the Boards affirm the decision not to consider the accounting for joint ventures in this phase of the project and therefore to exclude the formation of joint ventures from the application of the acquisition method in the business combinations standard. In addition, the staff recommend that the Boards not seek to develop a common definition of a joint venture in the business combinations project.

10. *Do the Boards agree?*