STAFF PAPER

3 November—4 November 2011

IFRS Interpretations Committee Meeting

Project	**Agenda Decision**
Paper topic	IFRS 11 *Joint Arrangements-Acquisition of interest in joint operation*—Cover Note

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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to clarify the applicability of IFRS 3 *Business Combinations* by:

   (a) joint operators for the acquisition of interests in joint operations as defined in IFRS 11 *Joint Arrangements*; and

   (b) venturers for the acquisition of interests in jointly controlled operations or assets as specified in IAS 31 *Interests in Joint Ventures*

   in circumstances in which the activity of the joint operation, or the activity of the jointly controlled operations or assets, constitutes a business as defined in IFRS 3. The Committee was asked whether the acquirer of such an interest should apply the principles in IFRS 3 on the initial recognition of the interest or whether the acquirer should instead account for it as the acquisition of a group of assets.

2. The Committee discussed the issue in the September 2011 meeting, with the September 2011 IFRIC Update reporting that:

   > The Committee observed that uncertainty exists in accounting for the acquisition of an interest in a joint operation in circumstances where the activity of the joint operation constitutes a business as defined in IFRS 3.
   >
   > The Committee discussed, but did not arrive at a conclusion on, a view that IFRS 3 is not required to be

applied to the particular assets and liabilities of a joint operation in circumstances where the joint operator acquires an interest in a joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. This is because IFRS 3 applies to business combinations and in the acquisition of an interest in a joint operation the acquirer does not obtain control of the business.

In order to avoid significant diversity in practice after the adoption of IFRS 11 and to address the concerns raised in the submission, the Committee directed the staff to analyse whether a premium paid for synergies can be recognised as a separate asset under another standard, eg IAS 38 Intangible Assets in circumstances when an entity acquires an interest in a joint operation that contains a business, or whether IFRS 3 could be applied by analogy, and whether further guidance should be developed on this issue.

The Committee also noted that the Board did not change the wording of the scope exclusion in paragraph 2(a) of IFRS 3 for ‘the formation of a joint venture’ when it decided to replace IAS 31 by IFRS 11, although the Committee understands that the Board did not want to change the scope of IFRS 3. Consequently, the Committee observes that paragraph 2(a) of IFRS 3 should have been amended to say ‘the formation of a joint arrangement’ because IFRS 11 redefined and renamed the different types of joint arrangements. Under IFRS 11 a ‘joint venture’ is one specific type of joint arrangement whereas under IAS 31 it included every type of joint arrangement. The Committee directed the staff to consider whether this issue can be addressed through the annual improvements process.

Purpose of these papers

3. The objective of these papers is to:

   (a) address the concern that significant diversity in accounting for the acquisition of interests in joint operation in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3 (revised 2008) will continue after the adoption of IFRS 11. In order to address this concern the papers also analyse:

      (i) whether a premium paid for synergies can be recognised as a separate asset under another standard;

      (ii) whether other guidance in IFRSs exists to account for the acquisition of an interest in a joint operation in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3 (revised 2008); and

      (iii) the options for proceeding with this project.

   (b) analyse whether the scope exception in paragraph 2(a) of IFRS 3 (revised 2008) can and should be amended to exclude all ‘formations of joint arrangements’ through the annual improvements process.

Structure of the papers

4. For ease of reference, we have split the analysis as follows:

   (a) Agenda Paper 8A addresses the **project options** and the related issues presented in paragraph 3(a) above; and

   (b) Agenda Paper 8B addresses issue of the amendment to the **scope exception** in paragraph 2(a) of IFRS 3 (revised 2008).

Discussions at the last meeting in September 2011

5. During the last meeting, the Committee did not arrive at a conclusion on, a view that IFRS 3 is not required to be applied to the particular assets and liabilities of a

joint operation in circumstances where the joint operator acquires an interest in a joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. However, many Committee members were opposed to the view that IFRS 3 is required to be applied to such acquisitions. In consideration of this situation, these papers analyse options to proceed with this project by assuming that IFRS 3 (revised 2008) is not one of the IFRSs applicable to the particular assets and liabilities in terms of paragraph 21 of IFRS 11 (issued May 2011).

6. Accordingly, the analyses in agenda papers 8A and 8B are based on this assumption.