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 operations—Scope exception		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Purpose of the paper

1. This paper considers the scope exception in paragraph 2(a) of IFRS 3 *Business Combinations* (revised 2008) for 'the formation of a joint venture'.
2. The Board did not change the wording of the scope exception when it decided to replace IAS 31 *Interests in Joint Ventures* by IFRS 11 *Joint Arrangements.* IFRS 11, however, 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.
3. Consequently, the question arose whether paragraph 2(a) of IFRS 3 (revised 2008) can and should be amended to exclude all 'formations of a joint arrangement' from the scope of IFRS 3 (revised 2008).
4. The purpose of this paper is:

   (a) to analyse the relevance of the scope exception in paragraph 2(a) of IFRS 3 (revised 2008);

   (b) to discuss whether paragraph 2(a) of IFRS 3 (revised 2008) can and should be amended through annual improvements; and

   (c) to make a recommendation.
5. For ease of reference, we reproduce in Appendix B the paragraphs from IFRSs and in Appendix C the paragraphs from US GAAP that we used to perform our analysis.

Relevance of the scope exception

6. Paragraph 2(a) of IFRS 3 (revised 2008) states:

> This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:
>
> (a) the formation of a joint venture.
>
> […]

7. To illustrate the relevance of the scope exception in paragraph 2(a) of IFRS 3 (revised 2008), it is necessary to retrace the development of the paragraph.

IFRS 3 (issued 2004)

8. Paragraph 3(a) of the original version of IFRS 3 issued in March 2004 stated:

> This IFRS does not apply to:
>
> (a) business combinations in which separate entities or *businesses* are brought together to form a *joint venture*.
>
> […]

9. This definition was clearly linked to the definition of a business combination in paragraph 4 of IFRS 3 (issued 2004):

> A business combination is the bringing together of separate entities or businesses into one reporting entity.

10. In addition, paragraph BC17 of IFRS 3 (issued 2004) explained, with respect to the scope exception in paragraph 3(a) of IFRS 3 (issued 2004):

> Although the treatment by venturers of interests in joint ventures is addressed in IAS 31 *Interests in Joint Ventures*, the Board has not yet considered **the accounting by a joint venture upon its formation**. The issues involved relate to broader 'new basis' issues that the Board intends to address as part of the second phase of its Business Combinations project. (emphasis added)

11. Consequently, the scope exception in paragraph 3(a) of IFRS 3 (issued 2004) addressed the accounting in the financial statements of the joint venture itself (the **joint venture level**) in contrast to the accounting in the financial statements of

the venturers (the **venturers' level**). It was needed to prevent IFRS 3 (issued 2004) from being applied in accounting for the formation of a joint venture in the financial statements of the joint venture itself.

12. A simple example of a formation of a joint venture that we think would have been within the scope of IFRS 3 (issued 2004) without the scope exception in paragraph 3(a) of IFRS 3 (issued 2004) is the scenario of two entities, A and B, establishing a new entity (NewCo) which is jointly controlled by A and B and each of them contributes one of their existing businesses to NewCo in exchange for equity. Without the scope exception in paragraph 3(a) of IFRS 3 (issued 2004) NewCo would apply IFRS 3 (issued 2004) in accounting for the contributed business, because it is the bringing together of separate businesses into one reporting entity. NewCo even obtains control of the contributed business, which was considered a strong indicator for a business combination (see paragraph 4 of IFRS 3 (issued 2004)).
13. The accounting on the venturers' level was addressed by paragraph 9 of IFRS 3 (issued 2004) instead. It stated in the section '**Identifying a business combination**' of IFRS 3 (issued 2004):

> This IFRS does not specify the accounting by venturers for interests in joint ventures (see IAS 31 *Interests in Joint Ventures*).

14. This paragraph was needed to delineate the scope of IAS 31 against the scope of IFRS 3 (issued 2004) in circumstances in which separate entities or businesses are brought together into one joint venture. Without paragraph 9 of IFRS 3 (issued 2004) both standards would have been applicable in accounting for such transactions on the venturers' level, including the scenario presented in paragraph 12 above.
15. In summary, **paragraph 9 of IFRS 3 (issued 2004)** addressed the accounting on the **venturers' level** and **paragraph 3(a) of IFRS 3 (issued 2004)** the accounting on the **joint venture level**.
16. Moreover, the Board intentionally excluded formations of joint ventures from the scope of IFRS 3 when it issued IFRS 3 in March 2004 (see paragraphs BC17, BC39 and BC47 of IFRS 3 (issued 2004)).

IFRS 3 (revised 2008)

17. Despite the fact that the Board had intended at the time of the first phase of the Business Combinations project to consider the accounting for formations of joint ventures on the joint venture level as part of the second phase of the project (see paragraphs BC5(b), BC17 of IFRS 3 (issued 2004)), the issue was also excluded from the second phase of the Business Combinations project, which was a joint project with the FASB (see paragraphs BC11, BC57 and BC59 of IFRS 3 (revised 2008) or BC9, BC27 and BC42 of the ED of Proposed Amendments to IFRS 3 *Business Combinations* (published June 2005)).
18. Although there was no change in the scope of IFRS 3 as far as joint ventures are concerned, a change in the wording of the scope exception was made because of the change in the definition of a business combination. In its December 2004 meeting, the Board tentatively decided that the exposure draft (ED) would include a revised definition that would converge with the FASB's definition of a business combination. Accordingly, the ED of *Proposed Amendments to IFRS 3* Business Combinations (published June 2005) proposed in paragraph 4 a revised definition of a business combination:

> A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

19. In the light of a definition that requires an acquirer to obtain control of one or more businesses for the transaction to be a business combination, the wording of paragraph 3(a) of IFRS 3 (issued 2004) was considered to be inappropriate because it named a formation of a joint venture as being a business combination (see paragraph IN6 of IFRS 3 (revised 2008) and BC26 of the ED of Proposed Amendments to IFRS 3 *Business Combinations* (published June 2005)).
20. Consequently, a wording very similar to the scope exception in SFAS 141 was adopted and paragraph 2(a) of the ED of *Proposed Amendments to IFRS 3* Business Combinations (published June 2005) proposed that:

> An entity shall apply this [draft] IFRS when accounting for business combinations. However, this [draft] IFRS does not apply to:
>
> (a) formations of joint ventures

> […]

21. For comparison, paragraph 9 of SFAS 141 stated:

> For purposes of this Statement, the formation of a joint venture is not a business combination.[6]

22. In addition, footnote 6 to SFAS 141 explained that:

> [6]The Board intends to address the accounting for other events or transactions that are similar to a business combination but do not meet this Statement's definition of a business combination and the accounting for joint venture formations in another project.

23. Paragraph 9 of SFAS 141 defined a business combination as:

> For purposes of applying this Statement, a *business combination* occurs when an entity[3] acquires net assets that constitute a business[4] or acquires equity interests of one or more other entities and obtains control[5] over that entity or entities.
>
> […]

24. In summary, the purpose of the scope exception in **paragraph 3(a) of IFRS 3 (issued 2004)** was and **paragraph 2(a) of IFRS 3 (revised 2008)** is to exclude the accounting for formations of joint ventures on the **joint venture level** from the scope of IFRS 3 in order to postpone considering the accounting for these transactions until a future project.
25. **Paragraph 9 of IFRS 3 (issued 2004)**, which addressed the accounting for joint venture on the **venturers' level**, was deleted without any replacement (see also the table of concordance attached to IFRS 3 (revised 2008).
26. After changing the definition of a business combination, so that it requires obtaining control of one or more businesses (see Appendix A of IFRS 3 revised 2008), a paragraph like paragraph 9 of IFRS 3 (issued 2004) was no longer needed to exclude accounting by venturers for their interests in joint ventures. Obtaining control of a business is not the same as obtaining *joint* control of a business, because 'control' and 'joint control' are mutually exclusive.

US GAAP comparison

27. The scope exception in paragraph 9 of SFAS 141 is carried forward in paragraph 805-10-15-4 of Topic 805 *Business Combinations* in the *FASB Accounting Standards Codification®* (ASC) and the definition of a business combination is found in the master glossary to the ASC.
28. We have liaised with the FASB staff and we understand that the scope exception in **paragraph 9 of SFAS 141** addressed or in **paragraph 805-10-15-4 of the ASC** addresses the accounting for formations of joint ventures in the financial statements of the joint venture itself (ie the joint venture level). Paragraph 12 above gives a scenario for which they consider the scope exception to be relevant.

'Joint venture' versus 'Joint arrangement'

Current situation

29. The Committee directed the staff to consider whether paragraph 2(a) of IFRS 3 (revised 2008) could be amended through the annual improvement process to exclude 'the formation of a joint arrangement' (ie all structures that are subject to joint control) from the scope of IFRS 3 (revised 2008).
30. IFRS 11 *Joint Arrangements* 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.
31. Consequently, by not amending paragraph 2(a) of IFRS 3 (revised 2008) to cover 'the formation of a(ny type of) joint arrangement' by issuing a consequential amendment to IFRS 11, the scope of IFRS 3 (revised 2008) has been extended. Whereas paragraph 2(a) of IFRS 3 (revised 2008) excluded any structure within the scope of IAS 31 that is subject to joint control from the scope of IFRS 3 (revised 2008), it now only applies to one specific type of structure within the scope of IFRS 11.
32. The question of whether paragraph 2(a) of IFRS 3 (revised 2008) should be amended was never discussed by the Board, as far as we can see, when developing IFRS 11.

Relevance of scope exception for joint operations

33. We understand that the Board did not want IFRS 3 (revised 2008) to be applied to the accounting for formations of joint ventures in the financial statements of the joint venture itself. Consequently, we think that paragraph 2(a) of IFRS 3 (revised 2008) should be amended to exclude not only formations of joint ventures from the scope of IFRS 3 (revised 2008) but also the formations of all types of joint arrangements, if business combination accounting would otherwise apply to the accounting for the formation of the joint operation in the financial statement of the joint venture itself.
34. We observe that financial statements on a **joint venture level** are typically (because of legal requirements) prepared by joint arrangements that are structured through a (legal) entity. Joint arrangements structured through a separate vehicle, such as a (legal) entity (see the definition of a separate vehicle in Appendix A of IFRS 11), are either:

    (a) joint ventures, if the parties have rights to the net assets of the arrangement; or

    (b) joint operations, if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement (see paragraphs B19 and B21 of IFRS 11).

35. Considering in addition the scenario presented in paragraph 11 above, we think that the scope exception in paragraph 2(a) of IFRS 3 (revised 2008) is relevant for both, formations of joint ventures as defined in IFRS 11 and formations of joint operations as defined in IFRS 11.
36. Nevertheless, even if the joint arrangement is not structured through a separate vehicle, we think that the joint operators may prepare combined financial statements of the joint operation. In the case of joint operations combined financial statements could reflect parts of two or more entities, eg the businesses that are held within the entities of the joint operators but put under joint control by an arrangement.
37. Consequently, we think that paragraph 2(a) of IFRS 3 (revised 2008) should be amended to address the formation of a joint arrangement.

Amending the scope exception

Paragraph 2(a) of IFRS 3 (revised 2008)

38. We think that the scope exception in paragraph 2(a) of IFRS 3 (revised 2008) should not only be amended to exclude 'the formation of a joint arrangement' from the scope of IFRS 3 (revised 2008). In addition, it should also be clarified that the scope exception only addresses the accounting on the **joint venture level** and not on the **venturers' level**.
39. We recommend this clarification because we think that paragraph 2(a) of IFRS 3 (revised 2008) is susceptible to giving rise to confusion. It was considered within the context of a venturer's or a joint operator's accounting for the acquisition of interests in jointly controlled operations or assets or joint operations. The paragraph is susceptible to giving rise to confusion because neither paragraph 2(a) of IFRS 3 (revised 2008) nor the related explanations of the basis for conclusions on IFRS 3 *Business Combination* (revised 2008) clearly indicates that this scope exception only addresses the accounting on the **joint venture level.**
40. Furthermore, we do not think that paragraph 2(a) of IFRS 3 (revised 2008) should address the accounting on the **venturers' level** either, in a type of 'belt and braces' approach. We think that it would be better to clarify within the context of the accounting for interests in joint operations, ie paragraphs 20 *et seq.* of IFRS 11, or by the interpretation that we are recommending in agenda paper 8A, that IFRS 3 (revised 2008) is not the IFRS that is applicable to the particular assets and liabilities in terms of paragraph 21 of IFRS 11 for the accounting 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).
41. In fact, we think that a scope exception in paragraph 2(a) of IFRS 3 (revised 2008) that also addresses accounting for formations of joint arrangements on the **venturers' level,** might actually be confusing. Such a comprehensive scope exception might be confusing because it does not entirely preclude the application of IFRS 3 (revised 2008) in accounting for joint

arrangements. IFRS 3 (revised 2008) is relevant for joint ventures as defined in IFRS 11, because the application of the equity method incorporates business combination accounting on the formation of such a joint venture. When a joint venture as defined in IFRS 11 is formed by bringing together separate businesses into a joint venture, or by a third party acquiring an interest in a subsidiary etc., the concepts underlying the procedures used in accounting for the acquisition of a subsidiary must be adopted in accounting for the acquisition of an investment in a joint venture. This is required by paragraph 24 of IFRS 11 and paragraph 26 of IAS 28 *Investments in Associates and Joint Ventures* (revised 2011), and includes the guidance in IFRS 3 (revised 2008). Consequently, we think that the scope exception in paragraph 2(a) of IFRS 3 (revised 2008) should be clarified as only addressing the accounting on the **joint venture level.**

42. We understand that such an amendment does not create a difference with US GAAP, but only a difference in wording between both accounting frameworks.
43. The proposed amendment is included in Appendix A to this paper.

Transition

44. The accounting for some past transactions might be questioned if the proposed amendment were to be applied retrospectively. The question of prospective or retrospective application therefore needs to be considered.
45. If a new standard, or an amendment to a standard, changes the accounting policy of an entity upon initial application, it shall apply the change retrospectively, if the new standard or the amendment to a standard does not include a specific transitional provision (see paragraph 19(b) of IAS 8).
46. We understand that the adoption of IFRS 11 may result in some joint operations applying IFRS 3 (revised 2008) in accounting for their formation in their financial statements. If a consequential amendment to IFRS 11 would have amended paragraph 2(a) of IFRS 3 (revised 2008) to the ‘formation of a joint arrangement’, joint arrangements might have applied other accounting principles on their formation.

47. However, this is only true for formations of joint operations in one or two periods before the proposed amendments in Appendix A of this agenda paper would become effective.
48. Consequently, we do not think that retrospective application would cause undue cost and effort and that there is no need for a specific transitional provision.

Annual improvements criteria assessment

49. In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against certain criteria. All the criteria (a)-(d) must be met to qualify for inclusion in annual improvements. We have assessed the proposed amendment against the enhanced annual improvements criteria, which are reproduced in full below:

Annual improvements criteria	**Staff assessment of the proposed amendment**
(a) The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirements should be applied, or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.	(a) Yes. The proposed amendment corrects an unintended consequence by including joint operations as defined in IFRS 11 within the scope exception and clarifies unclear wording. It clarifies that paragraph 2(a) of IFRS 3 (revised 2008) only excludes the accounting in the financial statements of a joint venture itself, or a joint operation itself, from the scope of IFRS 3 (revised 2008).

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.	(b) Yes. We believe that the proposed amendment is well defined and is sufficiently narrow in scope such that the consequences of the proposed change have been considered—it contributes to consistent accounting for formations of joint arrangements, ie that IFRS 3 (revised 2008) is not applied by joint operations or joint ventures in accounting for their formations in their own financial statements.
(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	(c) Yes. We think that the IASB will reach a conclusion on this issue on a timely basis, because it aligns with the existing principles in IFRS 3 (revised 2008) and IFRS 11 for the accounting for formations of joint arrangements.
(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.	(d) Yes. We expect the post-implementation review on business combinations to start in Q2 of 2012 and to last about 12 months before standard-setting action will be considered. It cannot be predicted whether this standard-setting action will address the scope exception in paragraph 2(a) of IFRS 3 (revised 2008). In addition, results from the review are not expected to become effective close to the time of the adoption of IFRS 11, which becomes effective in 2013.

Staff recommendation

50. On the basis of our analysis, we think that the Committee should recommend to the Board that the amendment proposed in Appendix A of this paper should be included in the **2011-2013** ***annual improvements*** cycle.

Questions to the IFRS Interpretations Committee

Questions—scope exception for formations of joint arrangements
1. Does the Committee agree with the staff analysis presented in paragraphs 6-49? 2. Does the Committee agree to recommend to the Board that it should amend paragraph 2(a) of IFRS 3 (revised 2008) to correct and clarify the scope exception through the 2011-2013 *annual improvements* cycle?

3. Does the Committee agree to recommend to the Board that the amendment should be applied retrospectively?
4. Does the Committee agree to recommend to the Board that it should adopt the text of the proposed amendment as shown in Appendix A? If not, what changes should be made?

Appendix A—Proposed wording for Annual Improvements

The proposed amendment to IFRS 3 (revised 2008) is presented below.

Amendment to IFRS 3 *Business Combinations* (revised 2008)

Paragraph 2 is amended (new text is underlined and deleted text is struck through).

Paragraph 64G is added.

Scope

2 **This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:**

(a) the accounting by ~~formation of~~ a joint arrangement~~joint venture~~in its financial statements upon its formation.

[…]

Effective date

[...]

64G *Improvements to IFRSs* issued in [date] amended paragraph 2(a). An entity shall apply this amendment for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendment to IFRS 3 *Business Combinations (revised 2008)*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment

Scope

BC1 The IFRS Interpretations Committee (Committee) reported to the Board that:

(a) paragraph 2(a) of IFRS 3 needs to be amended to exclude formations of joint operations from the scope of IFRS 3. Otherwise, a joint operation might be required to apply IFRS 3 in accounting for its formation in its individual financial statements or its combined financial statements.

(b) There was uncertainty about whether paragraph 2(a) of IFRS 3 only addresses the accounting by the joint arrangements themselves in their individual financial statements or in their combined financial statements or the accounting by the parties to the joint arrangement for their interests in the joint arrangement.

BC2 The Board considered the guidance in IFRS 3 and IFRS 11 for formations of joint arrangements. The Board noted that paragraph 2(a) of IFRS 3 should exclude formations of every type of joint arrangement (ie joint ventures and joint operations) from the scope of IFRS 3. The Board also noted that paragraph 2(a) of IFRS 3 only addresses the accounting by the joint arrangements themselves in their individual financial statements or in their combined financial statements.

BC3 The Board concluded that paragraph 2(a) of IFRS 3 needs be amended to address all types of joint arrangements and to remove uncertainty about its application.

BC4 Consequently, the Board proposes to amend paragraph 2(a) of IFRS 3 for 'the formation of a joint arrangement' and to clarify that it only excludes the accounting for formations of joint arrangements in the financial statements of the joint arrangement itself from the scope of IFRS 3.

Appendix B—relevant IFRS literature

Extracts from IFRS 3 *Business Combinations* (issued 2004)

3 This IFRS does not apply to:

(a) business combinations in which separate entities or *businesses* are brought together to form a *joint venture*.

[…]

4 A business combination is the bringing together of separate entities or businesses into one reporting entity. […]

9 This IFRS does not specify the accounting by venturers for interests in joint ventures (see IAS 31 *Interests in Joint Ventures*).

BC5 The second phase of the Business Combinations project includes consideration of:

[…]

(b) the accounting for business combinations in which separate entities or businesses are brought together to form a joint venture, including possible applications for 'fresh start' accounting.

[…]

BC17 Although the treatment by venturers of interests in joint ventures is addressed in IAS 31 *Interests in Joint Ventures*, the Board has not yet considered the accounting by a joint venture upon its formation. The issues involved relate to broader 'new basis' issues that the Board intends to address as part of the second phase of its Business Combinations project.

BC39 After considering all the information and arguments put before it, including case studies drawn from situations encountered in practice, the Board concluded that most business combinations result in one entity obtaining control of another entity (or entities) or business(es), and therefore that an acquirer could be identified for most combinations. However, the Board decided that it should not, in the first phase of its project, rule out the possibility of a business combination occurring (other than a combination involving the formation of a joint venture) in which one of the combining entities does not obtain control of the other combining entity or entities (often referred to as a 'true merger' or 'merger of equals').

BC47 As noted above, the Board decided that it should not, in the first phase of its Business Combinations project, rule out the possibility of a combination occurring (other than a combination involving the formation of a joint venture) in which one of the combining entities does not obtain control of the other combining entity or entities. Such combinations are sometimes referred to as 'true mergers' or 'mergers of equals'

Extracts from the ED of proposed Amendments to IFRS 3 *Business Combinations* (published June 2005)

2 An entity shall apply this [draft] IFRS when accounting for business combinations. However, this [draft] IFRS does not apply to:

(a) formations of joint ventures

[…]

4 A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.

BC9 The Board will consider the following issues as part of future phases of its project on business combinations:

(a) the accounting for business combinations in which separate entities or businesses are brought together to form a joint venture, including possible applications of 'fresh start' accounting.

[…]

BC26 However, the Board observed that the FASB definition focuses on control being the factor that triggers a business combination. In developing IFRS 3 the Board concluded that the definition of a business combination should be broad enough to encompass all transactions or other events in which separate entities or businesses are brought together into one reporting entity, regardless of the form of the transaction. The Board intended its definition of a business combination to be broader than transactions in which one entity obtains control of another (or others). For example, the definition in IFRS 3 includes formations of joint ventures and any other 'bringing together' that does not involve one entity obtaining control of another. As noted in paragraph BC39 of IFRS 3, at that time the Board:

> …decided that it should not, in the first phase of its project, rule out the possibility of a business combination occurring (other than a combination involving the formation of a joint venture) in which one of the combining entities does not obtain control of the other combining entity or entities (often referred to as a 'true merger' or 'merger of equals').

BC27 Although the definition was intended to be broad, IFRS 3 then excluded formations of joint ventures from its scope. The Board agreed that it will consider formations of joint ventures as part of future phases of its project on business combinations.

BC42 The draft revised IFRS 3, like IFRS 3, excludes from its scope the formation of a joint venture and combinations involving businesses under common control. The Board will consider the accounting for these business combinations as part of the future phases of its Business Combinations project. The Board will also consider whether and, if so, when to apply 'fresh start' accounting in the absence of a change in control.

Extracts from IFRS 3 *Business Combinations* (revised 2008)

IN6 A business combination must be accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. One of the parties to a business combination can always be identified as the acquirer, being the entity that obtains control of the other business (the acquiree). Formations of a joint venture or the acquisition of an asset or a group of assets that does not constitute a business are not business combinations.

2 This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:

(a) the formation of a joint venture.

[...]

App. A **business combination** A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also **business combinations** as that term is used in this IFRS.

BC11 The IASB also observed that, although the IFRS 3 definition of a business combination was sufficiently broad to include them, formations of joint ventures were excluded from the scope of IFRS 3. Because joint ventures are also excluded from the scope of the revised standards, the revised definition of a business combination is intended to include all of the types of transactions and other events initially included in the scope of IFRS 3

BC57 Neither the IASB nor the FASB has on its agenda a project to consider the fresh start method. However, both boards have expressed interest in considering whether joint venture formations and some formations of new entities in multi-party business combinations should be accounted for by the fresh start method. Depending on the relative priorities of that topic and other topics competing for their agendas when time becomes available, the boards might undertake a joint project to consider those issues at some future date.

BC59 Formations of joint ventures and combinations of entities under common control are excluded from the scope of the revised standards. Those transactions were also excluded from the scope of both IFRS 3 and SFAS 141, and the boards continue to believe that issues related to such combinations are appropriately excluded from the scope of this project. The boards are aware of nothing that has

happened since IFRS 3 and SFAS 141 were issued to suggest that the revised standards should be delayed to address the accounting for those events.

Extracts from IFRS 11 *Joint Arrangements* (issued 2011)

24 **A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.**

App. A **separate vehicle** A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

B19 A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

B21 As stated in paragraph B15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:

(a) rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or

(b) rights to the net assets of the arrangement (ie the arrangement is a joint venture).

[...]

Extracts from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Applying changes in accounting policies

19 **Subject to paragraph 23:**

(a) an entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and

(b) when an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.

Extracts from IAS 28 *Investments in Associates and Joint Ventures* (revised 2011)

26 Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

Appendix C—US GAAP literature

Extracts from SFAS 141 *Business Combinations* (amended 2008)

9 For purposes of applying this Statement, a *business combination* occurs when an entity[3] acquires net assets that constitute a business[4] or acquires equity interests of one or more other entities and obtains control[5] over that entity or entities. This Statement does not address transactions in which control is obtained through means other than an acquisition of net assets or equity interests. For purposes of this Statement, the formation of a joint venture is not a business combination.[6]

[…]

[6]The Board intends to address the accounting for other events or transactions that are similar to a business combination but do not meet this Statement's definition of a business combination and the accounting for joint venture formations in another project.

Extract from master glossary to the FASB's Accounting Standards Codification® (ASC)

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also Acquisition by a Not-for-Profit Entity.

Paragraph 805-10-15-4 of the FASB's Accounting Standards Codification® (ASC)

15-4 The guidance in the Business Combinations Topic does not apply to any of the following:

a. The formation of a joint venture

b. The acquisition of an asset or a group of assets that does not constitute a business or a nonprofit activity

c. A combination between entities, businesses, or nonprofit activities under common control (see paragraph 805-50-15-6 for examples)

d. An acquisition by a not-for-profit entity for which the acquisition date is before December 15, 2009 or a merger of not-for-profit entities (NFPs)

e. A transaction or other event in which an NFP obtains control of a not-for-profit entity but does not consolidate that entity, as permitted or required by Section 958-810-25. The Business Combinations Topic also does not apply if an NFP that obtained control in a transaction or other event in which consolidation was permitted but not required decides in a subsequent annual reporting period to begin consolidating a controlled entity that it initially chose not to consolidate.