

STAFF PAPER

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IASB Meeting

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Project	Annual Improvements (2011-2013 cycle)
Paper topic	IFRS 3 <i>Business Combinations</i> —Scope exclusion for the formation of a joint venture
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Introduction

1. At the November 2011 meeting¹, the IFRS Interpretations Committee (the Committee) discussed a question concerning the scope exclusion in IFRS 3 (revised 2008) relating to joint ventures. Specifically, the Committee discussed whether paragraph 2(a) of IFRS 3 *Business Combinations* (revised 2008) should:
 - (a) refer to ‘the formation of a *joint venture*’ or ‘the formation of a joint arrangement’, both as defined in IFRS 11 *Joint Arrangements*; and
 - (b) apply to the financial statements of:
 - (i) the joint venture/the joint arrangement itself;
 - (ii) a party to the joint venture/the joint arrangement; or
 - (iii) both.
2. At that meeting, the Committee recommended that the Board should include a proposed amendment to paragraph 2(a) of IFRS 3 (revised 2008) within the next exposure draft of *Improvements to IFRSs*.

¹ Refer to Agenda paper 8B—<http://www.ifrs.org/Meetings/Interpretations+Committee+Nov+11.htm>

Purpose of the paper

3. The purpose of this paper is to ask the Board whether it agrees with the proposed annual improvement to paragraph 2(a) of IFRS 3 (revised 2008), which would:
 - (a) correct an unintended consequence by including joint operations as defined in IFRS 11 within the scope exclusion; and
 - (b) clarify the scope of IFRS 3 (revised 2008) by explicitly stating that it excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself from the scope of IFRS 3 (revised 2008). Thereby it contributes to a consistent application of the scope exclusion in paragraph 2(a) of IFRS 3 (revised 2008).
4. The paper will therefore:
 - (a) provide a brief explanation of the issue;
 - (b) provide an assessment of the proposed amendments against the criteria for inclusion in Annual Improvements;
 - (c) make a recommendation for a proposed amendment to IFRS 3 (revised 2008); and
 - (d) ask the Board whether they agree with the recommendation.

Explanation of the issue

5. The IFRS Interpretations Committee (the Committee) received a request to clarify the application of IFRS 3 (revised 2008) 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 (revised 2008).

6. The Committee is still discussing the particular question submitted, and a paper on that topic will be presented to the Board at a future date.
7. However, in the course of its discussions the Committee noted that the Board did not change the wording of the scope exclusion in paragraph 2(a) of IFRS 3 (revised 2008) for ‘the formation of a joint venture’ when it decided to replace IAS 31 by IFRS 11, although the Committee understood that the Board did not intend to change the scope of IFRS 3 (revised 2008) when it issued IFRS 11. IFRS 11 had changed the use of the term ‘joint venture’ from having a general meaning that included ‘jointly controlled operations’, ‘jointly controlled assets’ and ‘jointly controlled entities’, to mean a specific type of joint arrangement, which does not include ‘joint operations’.
8. The Committee observed that there is a lack of clarity and directed the staff to consider whether this issue can be addressed through the annual improvement process.

Analysis of the issue

9. After analysing the issue, we presented our views to the Committee, which were that:
 - (a) the scope exclusion in paragraph 2(a) of IFRS 3 (revised 2008) relates only to the accounting in the financial statements of the joint venture itself, and not to the accounting for the investment in the joint venture in the financial statements of a party to the joint venture;
 - (b) there is a lack of clarity over the issue presented in paragraph 9(a) above; and
 - (c) paragraph 2(a) of IFRS 3 (revised 2008) should have been amended to ‘the formation of a joint arrangement’ when IFRS 11 was issued.
10. In summary, we reached these preliminary conclusions for the following reasons:
 - (a) Taking into consideration the background of paragraph 3(a) of IFRS 3 (issued 2004) and paragraph 2(a) of IFRS 3 (revised 2008) and their development, paragraph 2(a) of IFRS 3 (revised 2008) addresses the accounting in the financial statements of the joint venture itself, and not

the accounting for the investment in the joint venture in the financial statements of a party to the joint venture (for ease of reference, we have included extracts from the November 2011 Committee meeting agenda paper in Appendix B, which explains the background and the development of the scope exclusion and gives a comparison with US GAAP). A simple example of a formation of a joint venture that we think would be within the scope of IFRS 3 (revised 2008) were there no scope exclusion in paragraph 2(a) of IFRS 3 (revised 2008) is presented in paragraph 12 of Appendix B to this paper.

(b) There is a lack of clarity as to whether paragraph 2(a) of IFRS 3 (revised 2008) applies to the financial statements of:

- (i) the joint venture itself;
- (ii) a party to the joint venture; or
- (iii) both,

because neither paragraph 2(a) of IFRS 3 (revised 2008) nor the related explanations in the basis for conclusions on IFRS 3 *Business Combinations* (revised 2008) nor any other IFRS or related guidance clearly indicate that this scope exclusion only addresses the accounting in the financial statements of the joint venture itself.

(c) We understand that the Board did not want:

- (i) IFRS 3 (revised 2008) to be applied to the accounting for formations of all types of joint ventures as specified in IAS 31; nor
- (ii) to change the scope of IFRS 3 (revised 2008) when it issued IFRS 11.

Consequently, we think that paragraph 2(a) of IFRS 3 (revised 2008) should have been amended to ‘the formation of a joint arrangement’ when IFRS 11 was issued (for ease of reference, we have included extracts from the November 2011 Committee meeting agenda paper in Appendix B. These extracts discuss the actual and the intended scope of paragraph 2(a) of IFRS 3 (revised 2008)).

11. The Committee agreed with our analysis.

Amending the paragraph 2(a) of IFRS 3 (revised 2008)

12. We think that paragraph 2(a) of IFRS 3 (revised 2008) should be amended to exclude ‘the formation of a joint arrangement’ from the scope of IFRS 3 (revised 2008) to ensure that the scope of IFRS 3 (revised 2008) is not changed because of issuing IFRS 11.
13. In addition, we recommend that paragraph 2(a) of IFRS 3 (revised 2008) should also be amended to clarify that it only excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself from the scope of IFRS 3 (revised 2008). We recommend this amendment because there is a lack of clarity, which gives rise to confusion. For example, its relevance was considered as part of the Committee’s discussion on the request described in paragraph 5 above which clearly addresses the accounting for an investment in a joint venture/joint arrangement in the financial statements of a party to the joint venture/joint arrangement.
14. Paragraph 805-10-15-4 of Topic 805 *Business Combinations* in the *FASB Accounting Standards Codification*[®] (ASC) also excludes the formation of a joint venture from the scope of business combination accounting. This paragraph is even very similar in wording to current paragraph 2(a) of IFRS 3 (revised 2008) and the proposed amendment would increase differences in wording between these two accounting frameworks. After liaising with the FASB staff however, we understand that the scope exclusion in paragraph 805-10-15-4 of the ASC also addresses solely the accounting for the formation of a joint venture in the financial statements of the joint venture itself (see paragraph 28 of Appendix B to this paper). Consequently, we think that the proposed amendment maintains convergence between IFRSs and US GAAP on this point.
15. We do not think that a scope exclusion, which applies to the accounting for the formation of a joint arrangement in the financial statements of the parties to the joint arrangement, is needed, because the acquisition of an interest in a joint operation does not meet the definition of a business combination in Appendix A of IFRS 3 (revised 2008). Even if the activity of the joint arrangement constitutes a business as defined in IFRS 3 (revised 2008), the acquisition does not meet the

definition of a business combination in Appendix A of IFRS 3 (revised 2008), because the acquirer does not obtain control of the business.

16. The Committee agreed with our recommendation to amend the scope exclusion in paragraph 2(a) of IFRS 3 (revised 2008) to:
 - (a) exclude the formation of all types of joint arrangements from the scope of IFRS 3 (revised 2008); and
 - (b) add clarification that the scope exclusion only addresses the accounting in the financial statements of the joint arrangement itself, and not the accounting for the interest in a joint arrangement in the financial statements of a party to the joint arrangement.

Annual Improvements criteria assessment

17. We assessed the potential amendment to IFRS 3 (revised 2008), whose aim is to clarify the scope of the standard, against the annual improvements criteria. The assessment is reproduced in full in Appendix C to this paper.
18. On the basis of the assessment, we recommended to the Committee that the proposed amendment should be made through Annual Improvements. The Committee agreed with this recommendation.

Transition

19. 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.
20. 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 *Accounting Policies, Changes in Accounting Estimates and Errors*).
21. We understand that after the adoption of IFRS 11 but before the proposed amendment to paragraph 2(a) of IFRS 3 (revised 2008) becomes effective, some

joint operations might apply IFRS 3 (revised 2008) in accounting for their formation in their financial statements because they thought that they were required to do so. If a consequential amendment to IFRS 11 had amended paragraph 2(a) of IFRS 3 (revised 2008) to ‘the formation of a joint arrangement’ instead, these joint arrangements might have developed an accounting policy for their formation based on paragraphs 10-12 of IAS 8 that would differ from IFRS 3 (revised 2008).

22. Consequently, such joint operations might restate the accounting for their formation on a retrospective basis, if the proposed amendment would become effective.
23. However, each joint operation accounts only once for its formation and the amendment would only affect formations of joint operations in one or two periods between the adoption of IFRS 11 and the effective date of the proposed amendment. While IFRS 11 has to be applied for annual periods beginning on or after 1 January 2013 with earlier application being permitted (see paragraph C1 of IFRS 11), we expect that the proposed amendment, if finalised, would become effective on 1 January 2014.
24. Although the proposed amendment is clarifying that a joint operation is not required to apply IFRS 3 (revised 2008) in accounting for its formation in its financial statements, it might still choose to apply IFRS 3 (revised 2008) and therefore we think the restatement would be a choice, rather than a requirement.
25. Consequently, we do not think that retrospective application would cause undue cost and effort and we also think that there is no need for a specific transitional provision as a result of the amendment to ‘the formation of a joint arrangement’.

Consequential amendments

26. We reviewed the proposed change in relation to other existing IFRSs. We did not identify consequential amendments to other standards.
27. Specifically, we think that no consequential amendment for first-time adopters is needed because appropriate relief is already given through the exemptions for

business combinations in Appendix C of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

The Committee's recommendation to the Board

28. The Committee recommends that the Board should proceed with the proposed improvement to amend paragraph 2(a) of IFRS 3 (revised 2008).
29. If the Board agrees with the Committee's recommendation, we propose the draft amendment to paragraph 2(a) of IFRS 3 (revised 2008) as set out in Appendix A to this paper.

Questions for the Board

1. Does the Board agree with the Interpretations Committee's recommendation to amend paragraph 2(a) of IFRS 3 (revised 2008) through Annual Improvements?
2. If the Board agrees with the Interpretations Committee's recommendation, does the Board agree with the proposed wording for the Annual Improvement in Appendix A?
3. If the Board agrees with the Interpretations Committee's recommendation, does the Board agree that no specific transitional provision and no consequential amendments to other IFRSs are needed?

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 (the Committee) observed that:
- (a) 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 *Interests in Joint Ventures* by IFRS 11 *Joint Arrangements*, although the Committee understood that the Board did not want to change the scope of IFRS 3. IFRS 11 had changed the use of the term ‘joint venture’ from having a general meaning that included ‘jointly controlled operations’, ‘jointly controlled assets’ and ‘jointly controlled entities’, to mean a specific type of joint arrangement, which does not include ‘joint operations’.
- (b) There was uncertainty because of a lack of clarity about whether paragraph 2(a) of IFRS 3 only addresses:
- (i) the accounting by the joint arrangements themselves in their financial statements; or
- (ii) 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 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 the financial statements to which it applies.
- 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—Extract from IFRS Interpretations Committee agenda paper 8B, November 2011

- B1. A copy of the original Agenda Paper 8B which was discussed at the IFRS Interpretations Committee meeting in November 2011, can be accessed from the IASB website—
<http://www.ifrs.org/Meetings/Interpretations+Committee+Nov+11.htm>. For ease of reference, we have included the relevant extract below:

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:

⁶The 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 entity³ acquires net assets that constitute a business⁴ or acquires equity interests of one or more other entities and obtains control⁵ 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:
- joint ventures, if the parties have rights to the net assets of the arrangement; or
- 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.

Appendix C—Annual Improvements assessment criteria

C1. 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
<p>(a) The proposed amendment has one or both of the following characteristics:</p> <p>(i) clarifying—the proposed amendment would improve IFRSs by:</p> <ul style="list-style-type: none"> • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. <p>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.</p> <p>(ii) correcting—the proposed amendment would improve IFRSs by:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>(a) Yes. The proposed amendment corrects an unintended consequence by including joint operations as defined in IFRS 11 within the scope exclusion 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).</p>

<p>(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.</p>	<p>(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.</p>
<p>(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.</p>	<p>(c) Yes. We think that the IASB will reach a conclusion on this issue on a timely basis, because it is aligned with the existing principles in IFRS 3 (revised 2008) and IFRS 11 for the accounting for formations of joint arrangements.</p>
<p>(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.</p>	<p>(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 exclusion 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.</p>