

STAFF PAPER

19–23 November 2012

IASB Meeting

IFRS IC meetings: July, Sep, Nov 2011 and
Jan, Mar 2012

IASB: Sep 2012

Project	Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11 <i>Joint Arrangements</i>)		
Paper topic	Summary of due process followed		
CONTACT	Thomas Harzheim	tharzheim@ifrs.org	+44 (0)20 7246 0552

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction and purpose

1. In September 2012 the IASB tentatively decided to publish an Exposure Draft proposing an amendment to IFRS 11 *Joint Arrangements* and a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The proposed amendment is intended to add new guidance on the accounting for acquisitions of interests in joint operations as defined in IFRS 11 *Joint Arrangements* in circumstances in which the activity of the joint operation constitutes a business as defined in IFRS 3 *Business Combinations* (joint operations that are businesses).
2. The balloting process of the Exposure Draft *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11 *Joint Arrangements*) (the Exposure Draft), is under way and publication scheduled for December 2012.
3. The purpose of this paper is to:
 - (a) provide the IASB with a brief summary of the proposed amendment;
and
 - (b) explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft (see Appendix A) and ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

Summary of the proposals

4. IAS 31 *Interests in Joint Ventures* does not explicitly address the acquisition of interests in jointly controlled operations or assets in circumstances in which the activity of the jointly controlled operations or assets constitutes a business as defined in IFRS 3 (jointly controlled operations or assets that are businesses).
5. The same applies to joint operations that are businesses; IFRS 11 does not address the acquisition of interests in them either.
6. This lack of explicit guidance in IAS 31 has resulted in significant diversity in practice on the following issues:
 - (a) the accounting for a **premium paid** in addition to the amount paid for identifiable net assets, eg a premium paid for synergies. Such a premium is either recognised as a separate asset, ie goodwill, or is allocated to the identifiable assets on the basis of their relative fair values;
 - (b) the accounting for **deferred taxes**. Deferred tax assets and deferred tax liabilities arising from the initial recognition of assets and liabilities, except for deferred tax liabilities arising from the initial recognition of goodwill, are either recognised on the acquisition of the interests in the jointly controlled operations or assets that are a business, or not recognised because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12; and
 - (c) the accounting for **acquisition-related costs**. They are either capitalised or recognised as an expense.
7. This issue was brought to the attention of the IFRS Interpretations Committee (the Interpretations Committee) in May 2011 and first discussed at its July 2011 meeting. The issue and possible solutions were discussed by the Interpretations Committee and the IASB at several meetings from July 2011 to September 2012. As a result of these discussions, the IASB tentatively decided to propose the amendment to IFRS 11 and the consequential amendment to IFRS 1 as set out in the Exposure Draft subject to ballot in order to prevent the significant diversity in practice from continuing after the adoption of IFRS 11.

8. The IASB proposes to amend IFRS 11 and IFRS 1 to require a joint operator that acquires an interest in a joint operation that is a business to apply the relevant principles of business combination accounting and related disclosure requirements in IFRS 3 and other Standards in accounting for the acquisition.

Confirmation of due process steps

9. In Appendix A we have summarised the due process steps that we have taken in developing the Exposure Draft. For summarising these steps and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of an **exposure draft** for an IFRS, practice guidance or Conceptual Framework chapter’ in ‘Appendix 4—Due Process Protocol’ of the draft of the revised *Due Process Handbook*.

Compliance with due process to date

10. We note that the required due process steps applicable so far at this stage in the due process have been completed, as documented in Appendix A.

Question for the IASB on compliance with Due Process

Is the IASB satisfied that all required Due Process steps applicable so far have been complied with?

Appendix A

Confirmation of due process steps followed in the development of the Exposure Draft *Acquisition of an Interested in a Joint Operation* (Proposed amendment to IFRS 11 *Joint Arrangements*)

A1. The following table sets out the due process steps followed by the IASB in the development of the Exposure Draft (prepared as at 7 November 2012):

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>Meetings held to discuss topic.</p> <p>Project website contains a full description with up-to-date information on the project.</p> <p>Meeting papers posted in a timely fashion.</p>	<p>Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted.</p> <p>DPOC reviews comments from interested parties on IASB due process as appropriate.</p>	<p>This issue was discussed on the basis of publicly available agenda papers at the Interpretations Committee meetings in:</p> <ul style="list-style-type: none"> • July 2011; • September 2011; • November 2011; • January 2011; and • March 2011. <p>The Interpretations Committee webpages were updated by the staff after every meeting in which this issue was discussed.</p> <p>A project webpage was created after the September 2012 IASB meeting.</p> <p>The results of the discussions of the Interpretations Committee were also summarised in the <i>IFRIC Update</i> for each meeting.</p> <p>Afterwards, the IASB discussed the issue at its September 2012 meeting and decided to add this issue to its agenda and to propose the amendment to IFRS 11 and IFRS 1 as set out in the Exposure Draft.</p>
Formal consultation with the Trustees and the IFRS Advisory Council	Required	Discussions with the IFRS Advisory Council on topic.	<p>DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB.</p> <p>IFRS Advisory Council Chair invited to Trustees' meetings and meetings of DPOC</p>	<p>This proposed amendment is part of the IASB's and the Interpretations Committee's work on maintenance of IFRSs.</p> <p>The issue relates to a lack of guidance in IFRSs that is leading to significant diversity in practice.</p> <p>The proposed amendment is narrow in scope and occupies little of the IASB's time. Given the limited nature of the project and the narrow scope of the proposed amendment, the IASB does not undertake a separate consultation with the Advisory Council.</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or on-going associated costs.	Required	Publication of effect analysis	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS. IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication.	Given the narrow scope and the expected limited consequences of the proposed amendment, an effects analysis is not prepared.
Consultative groups utilised, if formed	Optional	Number of consultative group meetings, and evidence of substantive involvement in issues Consultative group review of draft Exposure Draft	DPOC receives report of consultative group activity from IASB.	N/A
Fieldwork undertaken in analysing proposals	Optional	IASB describes approach taken on fieldwork IASB explains why it does not believe fieldwork is warranted, if that is the preferred path Number of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	N/A
Outreach meetings with a broad range of stakeholders, with special effort for investors	Optional	Number of meetings held and location Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	The staff did conduct outreach with the IFASS group and interested parties, in particular preparers from extractive industries and large firms. The results from the outreach were discussed by the Interpretations Committee at its meeting in November 2011.
Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.	Optional	Number of and participation in webcasts	DPOC receives a report on outreach activities	N/A
Public discussions with representative groups.	Optional	Number of discussions held	DPOC receives a report on outreach activities	N/A
Online survey to generate evidence in support of or against a particular approach.	Optional	Number and results of surveys	DPOC receives a report on outreach activities	N/A

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities DPOC receives a report on outreach activities	N/A
Round tables between external participants and members of the IASB.	Optional	Number of meetings held	DPOC receives a report on outreach activities	N/A
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	Translations team has reviewed and formatting changes will be made as a result of their review.
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	XBRL team reviewed pre-ballot draft, and will also review ballot draft
Drafting quality assurance steps are adequate	Optional	External reviewers used to review drafts and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an Exposure Draft is issued, including the extent to which external reviewers have been used in the drafting process.	No fatal flaw review is done because: <ul style="list-style-type: none"> • it is an Exposure Draft; and • the drafting was already discussed with Interpretations Committee members and IASB members in the course of the meetings when the issue was discussed.
Drafting quality assurance steps are adequate	Optional	Review draft made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the IASB before an IFRS is issued	DPOC receives summary report on due process steps before an exposure draft is issued.	This step will be met by this Staff Paper.
Exposure draft has appropriate comment period.	Required	IASB sets comment period for response. Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required.	The IASB agreed at the September 2012 meeting that a comment period of not less than the standard comment period of 120 days will be used for this exposure draft.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Press release to announce publication of exposure draft.	Optional	Press release published Media coverage	DPOC informed of the release of the exposure draft.	Press release will be prepared and will be ready to be published with Exposure Draft.
Snapshot document to explain the rationale and basic concepts included in the exposure draft.	Optional	Snapshot posted on IASB website	DPOC receives a report on outreach activities. Snapshot sent to DPOC members.	N/A
Exposure Draft published	Required	Exposure draft posted on IASB website	DPOC informed of the release of the exposure draft.	Exposure Draft will be made available on the public website on publication date.