

STAFF PAPER

14–22 November 2013

Project	<i>Acquisition of an Interest in a Joint Operation—Proposed amendment to IFRS 11</i>		
Paper topic	Summary of due process followed		
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Introduction

1. In December 2012 the IASB published for comment the Exposure Draft ED/2012/7 *Acquisition of an Interest in a Joint Operation—Proposed amendment to IFRS 11* (the ‘ED’). The comment period ended on 23 April 2013. We have received 70 comment letters.
2. The ED proposed a narrow-scope amendment to IFRS 11 *Joint Arrangements* and a consequential amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The objective of the proposed amendment is to introduce guidance on the accounting, by a joint operator, for the acquisition of an interest in a joint operation, as defined in IFRS 11, in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business Combinations*.
3. At its meeting in July 2013, the IFRS Interpretations Committee (the ‘Interpretations Committee’) analysed the comments received and discussed the finalisation of the proposed amendment to IFRS 11.

4. At its meeting in October 2013, the IASB considered the comments received from respondents and the feedback received from the Interpretations Committee and tentatively decided to finalise the proposed amendment to IFRS 11.
5. The purpose of this paper is therefore to:
 - (a) provide the IASB with a brief summary of the proposed amendment to IFRS 11;
 - (b) assess whether the final amendment can be finalised or need to be re-exposed before finalisation;
 - (c) discuss the mandatory effective date of the final amendment;
 - (d) explain the steps in the due process that the IASB has taken since the publication of the ED in Appendix A to this staff paper;
 - (e) clarify whether IASB members intend to dissent from the final amendment; and
 - (f) ask questions to the IASB.

Summary of the proposed amendment to IFRS 11

6. Paragraph 20 of IFRS 11 requires a joint operator to recognise, in relation to its interest in a joint operation, among other things:
 - (a) its assets, including its share of any assets held jointly; and
 - (b) its liabilities, including its share of any liabilities incurred jointly.
7. In addition, paragraph 21 of IFRS 11 specifies that a joint operator shall account for those assets and liabilities in accordance with the Standards that are applicable.
8. However, neither IFRS 11 nor IAS 31 *Interests in Joint Ventures*, which IFRS 11 replaced, provided guidance on the accounting by a joint operator for

- the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.
9. As a result, the IASB proposed to amend IFRS 11 and IFRS 1 so that a joint operator accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business applies the relevant principles for business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.
 10. The proposed amendment not only applies to the acquisition of an interest in an existing joint operation, but also to the acquisition of an interest in a joint operation on its formation. However, it does not apply if the formation of the joint operation coincides with the formation of the business. This is the case when no existing business is contributed to the joint operation on its formation.
 11. To avoid the use of hindsight when determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transaction, the IASB proposed that an entity would apply the proposed amendment to IFRS 11 and the consequential amendment to IFRS 1 prospectively to acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business, on or after the effective date of the proposed amendment.

Finalisation or re-exposure

12. Paragraph 6.25 of the *Due Process Handbook* specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

13. In considering whether there is a need for re-exposure, the IASB:
- (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
 - (b) assesses the evidence that it has considered;
 - (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and
 - (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.
14. In its October 2013 meeting, the IASB tentatively decided to finalise the proposed amendments with the following additional clarifications:
- (a) the guidance on the acquisition of an interest in a joint operation applies to both:
 - (i) the acquisition of the initial interest in a joint operation; and
 - (ii) the acquisition of additional interests in the same joint operation;
 - (b) the relevant principles on business combinations accounting in IFRS 3 and other IFRSs are all the principles on business combinations accounting in IFRS 3 and other IFRSs unless they conflict with the principles in IFRS 11; and
 - (c) the final sentence of paragraph BC10 in the ED is added to the application guidance in paragraph B33B of the amendment. This sentence specifies that the amendment does not apply if no existing business is contributed to the joint operation on formation of that joint operation and the formation of the joint operation therefore coincides with the formation of the business.

15. We think that the changes mentioned above are not fundamental and respond to the feedback received. Consequently, we think that, on the basis of the re-exposure criteria in paragraphs 6.25–6.29 of the *Due Process Handbook*, the proposed amendment to IFRS 11 28 should be finalised without re-exposure.

Effective date

16. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.
17. We expect to issue the final amendments in Q1 of 2014. The amendment to IFRS 11 is narrow in scope. In addition, it applies prospectively to acquisitions of interests in joint operations on or after the effective date. Furthermore, reducing significant diversity in practice on a timely basis is one of the main purposes of this amendment.
18. Consequently, we propose that the mandatory effective date for the amendment is 1 January 2015.

Confirmation of due process steps

19. In Appendix A we have summarised the due process steps that we have taken since publishing the ED. In order to summarise these steps and thereby demonstrate that we have met all the due process requirements to date, we used the Due Process Protocol ‘Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter’ that is consistent with the *Due Process Handbook*.
20. We note that the required due process steps applicable for the publication of the final amendments have been completed, as documented in Appendix A.

Intention to dissent

21. When the IASB discussed the finalisation of the proposed amendment at its meeting in October 2013, no IASB member voted against the finalisation of the proposed amendment. However, paragraph 6.23 of the *Due Process Handbook* implies that we formally ask whether any IASB members intend to dissent to the final amendment before we ballot.

Questions for the IASB (members)

1. Does the IASB agree that the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 should be finalised without re-exposure?
2. Does the IASB agree with 1 January 2015 as the mandatory effective date for the final amendment?
3. Do any IASB members intend to dissent to the final amendment?
4. Is the IASB satisfied that all required due process steps that pertain to the publication of the final amendment have been complied with?

Appendix A—Confirmation of Due Process Steps followed in the Finalisation of a Standard, Practice Guidance or *Conceptual Framework* chapter

General IASB requirements: The development of a Standard is carried out during IASB meetings, when the IASB considers the comments received on the Exposure Draft (ED). The IASB will consider whether to expose its revisions for public comment, for example, a second ED. The IASB needs to consider transitional provisions and the effective date (Due Process Handbook, paragraphs 6.19–6.39).

Due Process Oversight Committee (DPOC) objective: To satisfy the DPOC that the consultation process has been sufficient for the IASB to justify its decisions. The DPOC needs to be assured that the IASB has appropriately considered views of stakeholders before concluding its deliberations, including the scope of the Standard and its technical content. The DPOC must also be assured that the IASB has appropriately considered the need to re-expose changes before finalising a Standard. The DPOC responds to the comments received on the IASB due process in developing a Standard.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	All comment letters that the IASB has received on the ED were posted on the project webpages.
Round-tables between external participants and members of the IASB.	Optional	Not applicable.

Step	Required/ Optional	Actions
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	<p>The comment letter analysis prepared by the staff was discussed by the Interpretations Committee in its July 2013 meeting on the basis of a publicly available agenda paper.</p> <p>The IASB discussed the comment letter analysis and the feedback from the Interpretations Committee at its October 2013 meeting (see Agenda Paper 12BA). It tentatively decided to finalise the proposed amendment to IFRS 11.</p> <p>The project webpage was updated by the staff after every Interpretations Committee meeting or IASB meeting.</p> <p>The results of the discussions of the Interpretations Committee and the IASB are also summarised in the <i>IFRS IC Update</i> and the <i>IASB Update</i> for each meeting.</p>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	<p>Because of the narrow scope and the expected limited consequences of the amendment (ie it is not a major amendment), an effect analysis is not prepared.</p> <p>However, the consequences of the narrow-scope amendment have been considered as part of the IASB's and Interpretations Committee's discussions.</p> <p>The likely effects of the amendment are the following:</p> <ul style="list-style-type: none"> • improve financial reporting by requiring the most appropriate approach in accounting for acquisitions of interests in joint operations in which the activity constitutes a business; and • reduce divergence in practice.
Email alerts are issued to registered recipients.	Optional	Not applicable.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not applicable.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Not applicable.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this staff paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this paper.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Analysis of the effective date is included in the main body of this paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the IFASS.
Publication		
Press release to announce final Standard.	Required	A press release will be published with the final amendments and made available to the DPOC together with a summary of the media coverage.

Step	Required/ Optional	Actions
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed because the amendments are narrow in scope (ie it is not a major amendment).
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not applicable.
Standard is published.	Required	Final amendments will be made available on eIFRS on publication date. The DPOC will be informed of the official release.