

STAFF PAPER

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IASB Meeting

Project	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)		
Paper topic	Sweep issues		
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Purpose of this paper

1. The objective of this Staff Paper is to address two sweep issues identified by IASB members during the balloting process for the project *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)*.
2. These issues are:
 - (a) does a joint operator remeasure previously held interests in a joint operation on the acquisition of an additional interest in the same joint operation whilst retaining joint control, in circumstances in which the activity of the joint operation constitutes a business, as defined in IFRS 3 *Business Combinations*?
 - (b) do the amendments to IFRS 11 apply on the acquisition of an interest in a joint operation under common control?
3. For ease of reference we refer to the former issue as ‘the remeasurement issue’ and to the later issue as ‘the common control issue’.

The amendment to IFRS 11

4. The objective of the amendments is to introduce in IFRS 11 guidance on the accounting for acquisitions of interests in joint operations in which the activity

constitutes a business. For ease of reference in this paper, we refer to a ‘joint operation in which the activity constitutes a business as defined in IFRS 3’ simply as a ‘joint operation’ without specifically mentioning that the activity of the joint operation constitutes a business.

5. The amendment to IFRS 11 require an acquirer of an interest in a joint operation to apply all the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations.
6. At its meeting in October 2013, the IASB tentatively decided to finalise the amendments to IFRS 11.
7. We expect to publish these amendments in Q1 of 2014.

The remeasurement issue

Description of the sweep issue

8. At its meeting in October 2013, the IASB tentatively decided to finalise the proposed amendments to IFRS 11 with three additional clarifications.¹ One of these clarifications was that the amendments apply to both:
 - (a) the acquisition of the initial interest in a joint operation; and
 - (b) the acquisition of additional interests in the same joint operation.
9. The purpose of this clarification is to ensure that the same general accounting concept is applied in accounting for the acquisition of initial and additional interests in joint operations.
10. An entity will therefore recognise goodwill as a separate asset and recognise deferred taxes on the acquisition date, as well as recognising acquisition-related costs as an expense for both, the acquisition of the *initial* and any *additional* interest in a joint operation.

¹ <http://media.ifrs.org/2013/IASB/October/IASB-Update-October-2013.pdf>

11. However, the amendments would not clarify whether the previously acquired interest in the joint operation is remeasured on the acquisition of the additional interest.
12. The staff had included this issue in the Staff Paper presented to the IASB in October 2013 but at the time recommended that the question of whether guidance on this issue is needed should instead be analysed in a subsequent project (see paragraphs 56–64 of Staff Paper 12BA presented at the October 2013 IASB meeting).²
13. Two IASB members raised concerns about this decision after reviewing the draft amendments to IFRS 11 in the course of the balloting process and analysing the comments from an editorial review; most of the external reviewers asked for this issue to be clarified.
14. Those IASB members think that the reference in the amendments to IFRS 11 to the principles on business combinations accounting in IFRS 3 and other IFRSs is unclear for acquisitions of additional interests in joint operations that result in retaining joint control. It might be understood as a reference to either:
 - (a) paragraph 42 of IFRS 3 with the result of remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or
 - (b) paragraph 23 of IFRS 10 *Consolidated Financial Statements* with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.
15. Consequently, those IASB members recommend clarifying whether a previously held interest in a joint operation is remeasured on the acquisition of an additional interest in the same joint operation while retaining joint control.

Staff analysis

16. The amendments to IFRS 11 require the acquirer of an interest in a joint operation to apply all the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11.

² <http://www.ifrs.org/Meetings/Pages/IASBOctober2013.aspx>

17. One of the principles on business combinations accounting is to remeasure a previously held equity interest in a business when obtaining control over the business (see paragraph 42 of IFRS 3).
18. Another principle is to account for changes in parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary as equity transactions (see paragraph 23 of IFRS 10). This includes the principles that a previously held interest in a subsidiary is not remeasured when the parent increases its ownership interest in the subsidiary by acquiring a non-controlling interest in the subsidiary. Rather, the portion of equity that is attributed to the non-controlling interest on the acquisition date is re-attributed to the equity that is attributed to the owners of the parent.
19. These two different requirements reflect the fact that obtaining control over a business is a significant event because it is a significant change in the nature of the investment and the economic circumstances surrounding it. Acquiring an additional interest in a business that is already controlled whilst retaining control generally does not change the nature of the investment and the economic circumstances surrounding it.
20. We agree with the IASB members raising the sweep issue that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while retaining joint control. This is because the nature of the investment has not changed. We see this as analogous to paragraph 23 of IFRS 10 which addresses the accounting for acquisitions of additional interests in businesses that are already controlled by the acquirer. Paragraph 42 of IFRS 3 instead addresses the acquisition of interests that result in the acquirer obtaining control over the business. This is the analogous transaction to acquisitions on interest in a business that result in the acquirer obtaining joint control of the business.
21. We think that the principle included in paragraph 23 of IFRS 10, which is not to remeasure a previously held interest, has to be applied on the acquisition of an additional interest in a joint operation while retaining joint control. This is because the principle not to remeasure previously held interests on the acquisition of an additional one is consistent with the guidance in IFRS 11.

22. In conflict with the guidance in IFRS 11 however is the principle in paragraph 23 of IFRS 10 to reattribute parts of the equity. This is because a joint operator does not recognise the shares of the other parties to the joint operation in the assets and liabilities of the joint operation (see paragraph 20(a) and (b) of IFRS 11). In other words, there is no amount in equity of the joint operator resulting from the joint operation that is equivalent to non-controlling interests that might be reattributed.
23. Accordingly, a joint operator does not remeasure previously held interests in a joint operation on the acquisition of an additional interest in the same joint operation, if the acquisition results in retaining joint control.

Staff view

24. On the basis of the comments received from the IASB members raising the sweep issue, the comments from the editorial review and our analysis, we agree with those IASB members that the amendments to IFRS 11 should be made clearer on the question about remeasurement of a previously held interest. We understand how it could be unclear whether the amendments to IFRS 11 refer to the principle in paragraph 42 of IFRS 3 or the principle in paragraph 23 of IFRS 10.
25. Consequently, we agree with those IASB members that a clarification should be included in the amendments to IFRS 11.
26. Our recommend wording for the amendments to Appendix B of IFRS 11 is in the Appendix of this Staff Paper.

The common control issue

Description of the sweep issue

27. IFRS 3 does not apply to combinations of entities or businesses under common control (see paragraph 2(c) of IFRS 3).
28. IFRS 11 does not include such a scope exception for joint operations that are under common control.

29. After reviewing the draft amendments to IFRS 11 in the course of the balloting process, two IASB members think that we need to include a scope exception in the amendments to IFRS 11 in respect of the acquisition of an interest in a joint operation when the parties sharing joint control, including the reporting entity, are under the control of the same ultimate controlling party.
30. They think that we should not require the application of the principles for business combinations accounting for transactions that would be outside the scope of IFRS 3 if control, rather than joint control, would be obtained by the acquirer.

Staff analysis and view

31. We agree with those IASB members that the application of the principles on business combinations accounting should not be required to be applied to acquisitions of interests in joint operations under common control. We agree for the reason given by these IASB members.
32. Consequently, we agree that a scope exclusion for acquisitions of interests in joint operations under common control should be added to the amendments to IFRS 11.
33. Our recommend wording for the amendments to Appendix B of IFRS 11 is in the Appendix of this Staff Paper.

Staff recommendation

34. On the basis of the analysis above, we recommend that the IASB should:
 - (a) clarify that previously held interests in a joint operation are not remeasured on the acquisition of an additional interest in the same joint operation, if the acquisition results in retaining joint control;
 - (b) include a scope exception for acquisitions of interests in joint operations under common control in the amendments to IFRS 11; and
 - (c) confirm the finalisation of the amendments to IFRS 11.

Questions for the IASB

1. Does the IASB agree with the staff's recommendation to clarify that previously held interests in a joint operation are not remeasured on the acquisition of an additional interest in the same joint operation, if the acquisition results in retaining joint control?
2. Does the IASB agree with the staff's recommendation to include a scope exception for acquisitions of interests in joint operations under common control in the amendments to IFRS 11?
3. Does the IASB agree with the staff's recommendation to confirm the finalisation of the amendments to IFRS 11?

Appendix Proposed wording for the amendments to Appendix B of IFRS 11

- A1. In this Appendix, we report our proposed wording for the amendments to the Appendix B of IFRS 11.
- A2. We propose to add new paragraphs B33B and B33D while renumbering existing paragraph B33B as B33C.

Accounting for acquisitions of interests in joint operations

...

B33B A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control because of the acquisition.

...

B33D Paragraphs 21A and B33A-B33D do not apply on the acquisition of an interest in a joint operation under common control.