



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



IASB  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, 30 April 2013

### **Exposure Draft ED/2012/7 Acquisition of an Interest in a Joint Operation**

Dear Sir or Madam,

We welcome the opportunity to respond to the invitation to comment on *Exposure Draft ED/2012/7 Acquisition of an Interest in a Joint Operation* (the ED).

We note that the IASB has published three exposure drafts within a short space of time: ED 2012/3 Equity Method: Share of Other Net Asset Changes; ED 2012/6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; and ED 2012/7 Acquisition of an Interest in a Joint Operation. As we indicated in our response to ED 2012/3 and ED 2012/6 of 27 March, these EDs all deal with issues which relate to the accounting for transactions with joint ventures and associates, and we think that they raise some important questions about the principles behind consolidation, equity accounting and business combinations and the practical issues. In view of the potential interaction between the subjects covered by these proposals we think that it would therefore be advisable to deal with them together in a holistic manner.

Furthermore, we note that in both the ED under consideration and the ED on the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, the interpretation of the existence of a business, as defined in IFRS 3 (2008), is crucial to the accounting issue. In our experience, the amendments made to the definition of a business in 2008 have made the identification of a business more difficult to perform and have at the same time seemed to have had the effect of widening the range of assets that come under the definition of a business. We are not convinced that these changes have improved financial reporting. In view of our experience, we would recommend that the Board await the analysis of the results of its forthcoming Post-Implementation Review of IFRS 3 before pursuing these proposals.

In addition, we are not convinced that the acquisition of an interest in a joint operation is the equivalent of the obtaining of control in a business combination. We do not think that either of the two relevant definitions of IFRS 3 (i.e. that of a business and that of a business combination) is satisfied by such a transaction. To apply business combination accounting to such a transaction in all cases is therefore a significant change and should be not dealt with in a limited scope project.

While we accept that the Board has identified diversity in practice, the ED gives no details of the facts and circumstances behind the different applications identified. It is therefore conceivable that the diversity observed is actually caused by different fact patterns among the transactions to which the provisions of the standards have been applied, rather than by divergent interpretations of the standards by entities.

On a point of drafting, we think that the final amendments should provide more guidance about which provisions of IFRS 3 and other standards are relevant. If this is not done, there will be a risk of unintended consequences including that of a further increase in diversity of approach.

In summary, we would recommend that the IASB conduct a more comprehensive review of all the relevant aspects of this matter before proceeding to a final amendment. This review should entail, in our view, analysis of the detail of the transactions giving rise to the diverse practices observed, of the different accounting models applied in this area by different industries, and consideration of the findings of its forthcoming review of the implementation of IFRS 3.

We provide responses below to the specific questions asked in the ED.

Yours faithfully,

ACTEO

Patrice MARTEAU

Chairman



AFEP

François SOULMAGNON

Director General



MEDEF

Agnès LEPINAY

Director of economic  
and financial affairs



## Responses to the Invitation to Comment

### Question 1: relevant principles

*The IASB proposes 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 on business combinations accounting in IFRS 3 and other Standards, and discloses the relevant information required by those Standards for business combinations.*

*Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?*

The ED does not provide details of the facts and circumstances of the transactions which have given rise to the perceived diversity in practice cited as the justification for the amendments proposed in the ED. A number of our members have experienced difficulty in applying the modified definitions of a business and of a business combination that were introduced by IFRS 3 (2008 revision) and in interpreting the requirements of IFRS 11 which distinguish a joint operation from a joint venture. In our view, it is entirely conceivable that the perceived differences in application are the result of different circumstances and scopes of transactions rather than the consequences of different interpretations. Indeed, in our discussions, we have noted that once the details of transactions are analysed in depth, the diversity of approach initially identified can be understood and justified.

Furthermore, we note that in both the ED under consideration and the ED on the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, the interpretation of the existence of a business, as defined in IFRS 3 (2008), is crucial to the accounting issue. In our experience, the amendments made to the definition of a business in 2008 have made the identification of a business more difficult to perform and have at the same time seem to have had the effect of widening the range of assets that come under the definition of a business. The introduction of the phrase “capable of being” in the definition of a business has contributed in large part to the complexity of the analysis and may also be subject to diversity of interpretation.

We are not persuaded by the arguments of BC6 and BC7 in favour of the application of the “relevant” principles of IFRS 3 and other standards, as these do not convincingly justify why the acquisition of a part of an asset or activity should be the effectively same as the acquisition of control of the whole of a “business” as defined in IFRS 3 (2008). Even if the joint operation as a whole could satisfy the definition of a business, we do not agree that a part of it can be a business while it is a part of the whole. In addition, this approach would appear to be a redefinition of the meaning of a business combination as “A transaction or other event in which an acquirer obtains ~~control~~ joint control or control of one or more businesses”.

Our members have found interpretation and application of the principles of IFRS 11 to determine whether the acquired interest is in a joint operation or a joint venture to be a challenge when put into practice. The proposals of the ED may bring further complexity and pressure in this area.

The ED is, in our view, modifying the concepts of a business and a business combination to an extent that it goes beyond a “limited scope project”, as it is categorized in the Introduction to the ED. As such, the topic requires more research and consideration of the potential consequences of such changes before an amendment is finalised.

As indicated above, we are not convinced that the concept behind the proposals is sound. We therefore think that the IASB must convincingly explain and justify the case for the extension of the business combination principles to the acquisition of an interest in a joint operation. Such an extension will place additional burdens on preparers and users, which can only be justified, in our view, by clear benefits in terms of usefulness of information.

The ED provides no details of the fact patterns behind the diversity of accounting and it is conceivable that the diversity in accounting observed is actually the result of different circumstances. In our discussions we have noted that there are circumstances in which the nature of the transaction, rather than the nature of the joint operation itself, can justify the treatment of the transaction as a business combination. Without detailed analysis and comparison of the facts and complete understanding of the circumstances of different transactions it is unsafe to conclude that there is real diversity in practice.

A final concern of ours is that if the ED is finalized as it stands it will not achieve its stated aim of eliminating diversity. In the absence of more comprehensive and specific guidance on which are the relevant principles of IFRS 3 and other standards that have to be applied, judgement will be used by entities to identify these and it is likely that different conclusions will be reached. The listing of the principles in B33A is insufficient in this respect.

We think that the approach proposed in the ED is far from being justified at the current stage and goes beyond the ambit of a limited scope amendment. In our opinion, there are a number of research activities which should be undertaken before final conclusions are drawn. These include: analysis of the findings of the Post-Implementation Review of IFRS 3; detailed outreach with preparers in a number of different industries (including, for example, oil & gas, car manufacturing, construction...) to identify types of transactions and industry practice; consideration of the accounting for contingent consideration including the findings of the IFRS IC in this regard; and consideration of the costs and benefits of the information provided by the potential approaches to the accounting for the acquisition of the interest in the joint operation.

The finalised requirements should have a robust conceptual basis with clear explanation justification of any divergence from accepted interpretation of definitions and concepts, and be consistent across all relevant standards.

## Question 2: scope

*The IASB intends to apply the proposed amendment to IFRS 11 and the proposed consequential amendment to IFRS 1 to the acquisition of an interest in a joint operation on its formation. However, it should not apply if no existing business is contributed to the joint operation on its formation.*

*Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?*

As discussed above, a part of a business is not a business and joint control is not control. A business combination is achieved only when an entity acquires control of a managed set of interests in joint operations. We do not agree that the acquisition of a jointly-controlled interest in a joint operation can satisfy the definition of a business combination, whether it be achieved at the formation of a joint arrangement or later.

### **Question 3: transition requirement**

*The IASB intends to apply the proposed amendment to IFRS 11 and the proposed 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.*

*Do you agree with the proposed transition requirement? Why or why not? If not, what alternative do you propose?*

It will be evident from our comments above that we are of the firm view that the IASB should not proceed with the ED in its current form.

If, however, the IASB should decide to proceed to finalisation of the proposals of the ED, then we would agree that prospective application would be best, for the reasons provided in BC11 of the ED.

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