

Ms Francoise Flores
EFRAG
Square de Meeus 25
1000 Brussel
Belgium

The IASB's Exposure Draft *Acquisition of an Interest in a Joint Operation*

Dear Ms Flores,

The European Securities and Markets Authority (ESMA) thanks you for this opportunity to contribute to EFRAG's due process. We are pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

ESMA has considered EFRAG's draft response to the IASB's Exposure Draft (ED) *Acquisition of an Interest in a Joint Operation*. Due to a lack of guidance in IAS 31 – *Interests in Joint Ventures*, diversity has arisen in the accounting by ventures for the acquisition of interests in which the activity of the jointly controlled operations or assets constitute a business. It seems this diversity will continue because the current version of IFRS 11 does not address this issue.

Like EFRAG, ESMA supports the IASB's proposal to amend IFRS 11 – *Joint Arrangements* and IFRS 1 – *First-time Adoption of International Financial Reporting Standards* 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 should apply the relevant principles on business combinations in IFRS 3 – *Business Combinations* and provide the relevant required disclosures.

ESMA also agrees with the proposed scope i.e. to the acquisition of an interest in an existing joint operation, also on its formation if the contribution consists of a business, but not if no existing business is contributed to the joint operation on its formation.

We share EFRAG's concern on the consistent application of the notions of 'joint operation', 'joint venture' and the identification whether a set of assets and liabilities constitutes a 'business'. We would encourage the IASB to consider how the notion of 'business' is applied in practice as part of its announced IFRS 3



post-implementation review and to look at the notion of ‘joint operations’ and ‘joint ventures’ as part of the conceptual framework or in the IFRS 11 post-implementation review.

We support EFRAG when it writes that “the ED does not specifically address the accounting required when an investor acquires an additional interest in a joint operation, while maintaining joint control”. The ED implies that the joint operator should apply IFRS 3 to the acquisition of further interests. While this is consistent with the application of the equity method, a key principle underlying IFRS 3 is that it is applied only once at the date of the business combination. ESMA believes that the IASB should clarify how a joint operator should account for acquisitions of additional interests in a joint operation after it already obtained joint control and why that treatment is appropriate.

Finally, ESMA also agrees with the proposed transition requirement and the IASB’s proposals for prospective application of the proposed amendments.

Please do not hesitate to contact us should you wish to discuss any of the issues we have raised.

Yours sincerely,

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Steven Maijoor
Chair

European Securities and Markets Authority

A handwritten signature in blue ink, appearing to be 'J. Galbo', written over a light blue grid background.

Julie Galbo
Chair,
Corporate Reporting Standing Committee
European Securities and Markets Authority