



MINISTERIO
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INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

ED/2012/7
ED Acquisition of an Interest in a Joint Operation
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Sir/Madam,

In the present letter ICAC gives its view on EFRAG's Draft Comment Letter on IASB's ED "*Acquisition of an Interest in a Joint Operation*".

In general terms we agree with the views expressed by EFRAG on its Draft Letter, nevertheless we would like to point out some observations regarding proposed amendments to **IFRS 11** and **IFRS 1**:

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?

EFRAG supports the IASB's proposal on the basis that it addresses current diversity in practice.

However, we are concerned that considerable judgment is required in practice to distinguish a joint operation from a joint venture.



ICAC's comments:

The IASB proposes to amend IFRS 11 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 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.

Firstly, we agree with IASB's ED conclusion that applying the relevant principles on business combinations accounting in IFRS 3 and other Standards is an appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

IFRS 11 requires a joint operator to recognize assets, liabilities, revenue and expenses according to its share in the assets, liabilities, revenues and expenses of the joint operation as determined and specified in the contractual arrangement, rather than base its recognition on the ownership interest that it has in the joint operation. Indeed, this accounting should not preclude the application of the principles in IFRS 3 to acquisitions of interests in joint operations, when the investor pays a premium for the interest in the joint operation whose activity constitutes a business. Nevertheless, we note that there is a lack of any mention by the IASB to this particular case (of acquisition of interests in a joint operation that is a business) in which no minority interests will be recognized, and it will be difficult to apply the "Entity's perspective". We suggest the IASB to introduce guidance on this matter (the implications in this project, of the fact that no minority interests will be recognized), particularly when additional interest is acquired once the entity had previously acquired joint control, subject that is directly related to the accounting of business combinations as treated in IFRS 3 and other IFRS.



Therefore agree with EFRAG when it states on its paragraph 16 “*we note that the distinction between a joint operation and a joint venture requires exercise of judgment and might not necessarily be easy to apply given the complex interaction between the definition of a joint operation and that of a business in IFRS 3. Although paragraph BC29 of IFRS 11 states that a ‘business’ can be found in all types of joint arrangement (i.e. joint ventures and joint operations), the existing definition of a ‘business’ in IFRS 3 suggests that only few joint operations might be in fact businesses.*”

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?

EFRAG agrees that the ED (including the proposed consequential amendment to IFRS 1) should be applied to the acquisition of an interest in a joint operation on its formation. However, EFRAG is concerned that the ED does not comprehensively address the issues and may give rise to new issues.

ICAC’s Comments:

ICAC has some observations in relation to paragraph B33B added by the ED, states: “*Paragraphs 21A and B33A apply to the acquisition of an interest in a joint operation on its formation, except when there is no existing business.*”:

In our opinion, this paragraph is not clear enough; the IASB has included some paragraphs on the ED, that far from clarifying, we think that they make some type of confusion. For example, the Introduction and BC10 of the Exposure Draft state that *the proposed amendment does not only apply 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 should 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.

Paragraph B33B is too tight; it leaves open some questions like in relation to “*acquisition of interests in a joint operation on its formation*”: does it include the “*existing joint operations*” mentioned in the introduction and BC10?; would the same principals be applied for acquisitions of additional interests in a joint operation after joint control is obtained? In relation to this second question, and in line with our answer to question 1, we believe the IASB should address which would be the treatment for this operations taking into account that for joint operations *minority interests* would not be recognized, and according to IFRS3 it is not allowed an increase of *goodwill*. In this case then, would it be allowed to increase the value of the assets?

For the reasons stated above, we believe paragraph B33B should be clarified in order to avoid continuance of diversity in practice.

Finally, we agree with paragraphs 19-20 of EFRAG DCL, when it says that that there are some cross-cutting issues that are directly related to this subject that should be considered in a comprehensive way rather than a series of separate standards, like the accounting for acquisitions of assets and business combinations, contingent considerations in a business combination, sales or contributions of assets between an investor and its associate/joint venture, variable payments for separate acquisition of PPE and intangibles.



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?

EFRAG agrees with the proposed transition requirement to apply the ED and the consequential amendment to IFRS 1 prospectively.

ICAC's Comments:

We agree with prospective application.

Please don't hesitate to contact us if you would like to clarify any point of this letter,

Yours sincerely,

Ana Mª Martínez-Pina
Chairman of ICAC