

COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Correspondant Ignace Bogaert Tel. 02 277 61 74 Your references IASB ED Our references C – 2013/26 Date 24.04.2013

Dear Sir, Madam,

Invitation to comment - IASB ED Acquisition of an Interest in a Joint Operation

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft Acquisition of an Interest in a Joint Operation - Proposed amendment to IFRS 11 issued by the IASB (the "Boards") in December 2012 (hereinafter the "ED").

Question 1

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 BASB supports the proposed accounting in the ED_for the acquisition of an interest in a joint operation. However, we have following observations.

Consistent application of the definition of a business has been an issue in practice in the past because the line between what is a business and what is actually just a collection of assets is unclear, i.e. the difference between an asset deal and a business combination. We are concerned that without greater clarification of this point, there would be scepticism about whether the ED will reduce diversity in practice.

We understand that this ED and the ED Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28) introduce new situations where the definition of a business becomes even more important.

Differences in application of the definition of a business have been noted between industries, e.g. the real estate sector group is concerned that the ED brings them back to the issue as to whether a rented property (or a single property SPV) is a business or not.

Therefore, we recommend that the IASB considers clarifying the definition of a business as soon as possible. We believe that many of the divergent interpretations of the definition of a business could be addressed by adding examples to IFRS 3, or by further clarifying Appendix B to IFRS 3. We understand the reason for the IASB limiting the scope of this ED, and the fact that it is seeking to amend IFRS 11 and not IFRS 3. Therefore this amendment is not the place for clarifying the definition of a business.

As stated above, we are not convinced that the significant diversity in practice will be reduced unless the definition of a business is clarified, and we therefore recommend that this issue should be given priority by the IASB.

Paragraph 21 A and B33A of IFRS 11 propose that the 'relevant principles' on business combinations accounting in IFRS 3 should be applied to the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. Paragraph B33A (a) - (d) then gives some examples of the principles of IFRS 3 that shall be applied. Based on paragraph BC6, which clearly states that the IASB intends to require the application of 'all' the relevant principles on business combinations accounting, we assume that all principles of IFRS3 should be applied and that B33A (a) - (d) is a non-exhaustive list, but we fail to understand why these particular principles were highlighted?

We think it is confusing to highlight specific principles, because it gives the impression that not all the principles of IFRS 3 should be applied, such as those to do with bargain purchase scenarios, and scenarios where the consideration is in a form other than cash — or where no consideration transfers at all. We understand that some of the principles of IFRS 3 would not be directly applicable to the case of acquisition of an interest in a joint operation. However, we believe that all recognition and measurement principles should be applied.

We recommend that the reference to 'other IFRSs' be eliminated unless the IASB has an intention to give a specific attention to certain IFRSs. If it remains, additional guidance should be given around this requirement, such as examples of where other IFRSs would be applied.

We understand that it was not the original intention of the IFRIC to cover step-up acquisitions of interests in a joint operation, when the additional acquisition would result in a move from joint control to control. However, we think the IASB should clarify whether the ED applies to acquiring an initial interest in a joint operation, as well as a subsequent or 'step-up' interest, while maintaining joint control? The wording in paragraph 21A of the ED only states 'when an entity acquires an interest in a joint operation...'

If the ED should apply to step-up acquisitions where joint control still exists, it is our understanding that the IASB intended for the requirements of the ED to apply to each purchased tranche separately, which would be consistent with the approach adopted as industry practice. If this is what the IASB intended, we would be interested to know whether the initial tranche would be fair valued when the subsequent tranche is purchased?

If the initial tranche is to be fair valued, we would like to understand when the fair value should be determined and how should the acquisition date be determined in the context of a joint operation.

In addition, we are unclear whether and/or how the ED would apply to the scenarios below:

- a. In a step-up acquisition scenario where the initial tranche was purchased when the joint operation only contained assets, but the subsequent tranche was purchased once the joint operation contained a business. In this scenario, we think the principles of the ED would apply to the subsequent tranche only.
- b. Two investors purchase shares in a joint operation. At the same time, each party contributes assets to the joint operation and, combined together, those assets immediately form a business. We think the principles of the ED apply to both investors in this scenario. One could argue that these transactions are scoped out of the ED although we fail to understand why these transactions are scoped out given their economic equivalence compared to the first and third scenario
- c. Two investors purchase shares in a joint operation. At the same time, one investor contributes assets and the other contributes an existing business to the joint operation. The contributed assets and the business are combined to comprise a new business in the joint operation. We think the principles of the ED apply to both investors in this scenario.

We recommend that the IASB clarify the principles in the ED, so that they can be applied to different scenarios as illustrated above.

Question 2

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?

We support the proposal that there must always be a business present if the principles of IFRS 3 are to be applied. However, we think that the wording in paragraph B33B is not clear.

Question 3

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?

We support the proposal of prospective application with early adoption permitted. However, we would allow reporting entities to apply this proposal as well on a retrospective basis as we are of the opinion that this would give stakeholders a better understanding of the transaction as such.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully

Jan Verhoeye

Chairman BASB