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19 March 2013

Dear Françoise

**EFRAG Draft Comment Letter: ED *Acquisition of an Interest in a Joint Operation***

I am writing on behalf of the Financial Reporting Council (FRC), in response to the EFRAG Draft Comment Letter (DCL) on the IASB Exposure Draft *Acquisition of an Interest in a Joint Operation* (ED).

Enclosed with this letter is the FRC's response letter to the IASB concerning the ED. In summary, the FRC considers that if what is acquired is properly classified as a "joint operation", the entity has concluded that it does not constitute a business, otherwise it would be classified as a "joint venture" (in which case it will apply equity-accounting). The FRC therefore considers that a view must first be reached on whether a "joint operation" can meet the definition of a business.

The FRC's view is set out in more detail in the enclosed response to the IASB. If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail [g.chatterton@frc-asb.org.uk](mailto:g.chatterton@frc-asb.org.uk), or me.

Yours sincerely



Roger Marshall  
Chairman, Accounting Council  
Director, FRC



Hans Hoogervorst  
Chairman  
IASB  
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19 March 2013

Dear Hans

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

I am writing on behalf of the Financial Reporting Council (FRC), in response to the above Exposure Draft (ED).

The FRC considers that a “joint operation” is unlikely to constitute a business. In circumstances where the collection of assets of the “joint operation” in which an interest has been acquired are deemed to constitute a business, classification as a “joint operation” is likely to be incorrect. If what is acquired is properly classified as a “joint operation”, the entity has concluded that it does not constitute a business, otherwise it would be classified as a “joint venture” (in which case it will apply equity-accounting). The FRC therefore considers that a view must first be reached on whether a “joint operation” can meet the definition of a business.

Furthermore, the FRC considers that where classification as a “joint operation” is appropriate based on the interest in the underlying assets, the consideration paid should be treated as the cost of those assets unless a separate intangible asset is also recognised.

The Appendix to this letter sets out the FRC’s responses to the questions set out in the Invitation to Comment in the ED.

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail [g.chatterton@frc-asb.org.uk](mailto:g.chatterton@frc-asb.org.uk), or me.

Yours sincerely

Roger Marshall  
Chairman, Accounting Council  
Director, FRC

## **Appendix: Responses to 'Questions for respondents' in the IASB Exposure Draft *Acquisition of an Interest in a Joint Operation***

### **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?*

#### **Response:**

Disagree – The FRC considers that the implicit assumption that a business can be classified as a “joint operation” is not appropriate because, if what is acquired is properly classified as a “joint operation”, the entity has concluded that it does not constitute a business, otherwise it would be classified as a “joint venture” and so would apply equity accounting.

Furthermore, the FRC considers that the amount that the acquirer is prepared to pay for the assets represents the value of those assets to the acquirer. Accordingly, this amount should be treated as the cost of those assets (as with any other fixed asset). Alternatively, part of the amount may be treated as a separate intangible asset where this is justified by the circumstances.

### **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?*

#### **Response:**

Disagree – The FRC notes that the proposed amendment is based on an assumption that a business can be classified as a “joint operation”. It considers that this assumption is likely to be incorrect (see response to question 1).

### **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 interest 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?*

**Response:**

Agree – It would not be helpful to impose the burden of retrospective adjustments on preparers, particularly where this involves requiring the application of hindsight in determining fair values.