



Ms. Françoise Flores
TEG Chair
EFRAG
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E-mail: Commentletters@efrag.org

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Ref.: ACC/AKI/TSI/SRO

Dear Ms. Flores,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft on Acquisition of an Interest in a Joint Operation

- (1) FEE is pleased to provide you with its comments on the EFRAG Draft Comment Letter regarding the IASB Exposure Draft on Acquisition of an Interest in a Joint Operation (the "ED").
- (2) FEE agrees that there is diversity in practice as how operators account for the acquisition of an interest in a joint operation. Therefore we support the IASB's effort to address this issue through appropriate amendments to IFRS 11. However, we believe that the ED needs some additional consideration, clarification and guidance on certain areas so that it would be effectively applied in practice.
- (3) We believe that the ED's focus is too narrow. As further detailed below, there is a need to address other transactions involving the acquisition of an interest in a joint operation and also related cross-cutting issues.
- (4) In particular, the ED does not address how a joint operator should account for acquisition of an additional interest in an existing joint operation without changing the nature of the investment. In addition, where the application of the proposed amendments remains unclear is when it includes scenarios where two investors purchase shares in a joint operation at the same time and as a result of their contributions (asset or business) a new business is formed within the joint operation.
- (5) Further, as indicated by EFRAG, there is a need to clarify how to account for a loss of control over a business that is not a subsidiary and it is contributed in exchange for an interest into a joint operation. In such transactions, is there a need to limit the gain/loss by reference to the interests held by other participants in the joint operations as required by existing paragraph B34 of IAS 28?

- (6) It is also not clear whether the proposals in the ED are meant to apply also to investors, other than joint operators, that may have an interest in a joint operation. The wording in proposed paragraph 21A, which refers to “when an entity acquires an interest in a joint operation”, and the requirement of existing paragraph 23, that the same accounting should be applied by all parties with an interest in a joint operation, both appear to indicate that the ED would apply to parties other than joint operators. However this should be clarified and the reason why this treatment is appropriate should also be explained in the basis for conclusion.
- (7) Therefore, we believe that the Board should comprehensively address, rather than through a piecemeal approach, all transactions related to an acquisition of an interest in a joint operation to avoid further diversity in practice.
- (8) We agree with EFRAG that making a distinction between a joint operation and a joint venture requires considerable judgment and might not be easy to apply. Therefore, we would recommend the Board to reconsider providing further clarification on the definition of a business and its application following the post-implementation review of IFRS 3.
- (9) The ED proposes that when accounting for an acquisition of an interest in a joint operation whose activity constitutes a business, the relevant principles in IFRS 3 and other IFRSs should be applied. In order to define these relevant principles, the Board includes a list of accounting principles on business combinations accounting in paragraph B33A. We believe that all principles in IFRS 3 and other IFRSs should be generally applicable when accounting for such an acquisition. Therefore we recommend deleting this list of principles and making a reference to all principles in IFRS 3 and other IFRSs in paragraph B33A.
- (10) We agree with a prospective application to avoid use of hindsight in establishing fair value.

For further information on this letter, please contact Tibor Siska, Project Manager at the FEE Secretariat on +32 2 285 40 74 or via e-mail at tibor.siska@fee.be.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive