Exposure Draft 2012/7: Acquisition of an Interest in a Joint Operation – Proposed amendment to IFRS 11

Dear Sir or Madam,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft, *Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11)*.

We support the IASB’s initiative to resolve diversity in practice as regards the accounting, by a joint operator, of an interest in a joint operation. Actually, the recently-published IFRS 11 did not enable to solve the differences of views identified with IAS 31 (which will be replaced by IFRS 11 from 1 January 2014 in Europe).

Though the objective of the amendment is commendable, we would like to raise a number of issues that should be dealt with by the IASB as soon as possible:

- Firstly, the proposed amendment provides guidance on the accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined by IFRS 3. We note that the broader topic of what constitutes a business is currently part of the issues’ list of the IFRS Interpretations Committee as “work in progress”. We understand that outreach activities are being conducted on this subject. The topic will be addressed by the Board as part of its post-implementation review of IFRS 3 which is planned to start during the second quarter of 2013. Consequently, even if the proposed amendment to IFRS 11 is aimed at introducing guidance on an issue on which IFRSs are currently silent, it seems that the problem is actually moved to a higher level.
• Secondly, we believe that the IASB should not only focus on the accounting of an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, but also on the accounting of the loss of control of a business which is contributed to a joint operation. Actually, in many situations, the creation of a joint operation is made by the contribution of a business by each party. Thus both transactions (i.e. the acquisition of an interest in a joint operation and the loss of control of a business) are closely related. But here only one “side” of the transaction is being dealt with. Thus, similarly with the issue which is being tackled by proposed amendments to IFRS 10 and IAS 28 on Sales or contributions of assets between an investor and its associate / joint venture (ED/2012/6), we believe that the issue of sales or contributions between an investor and its joint operation should also be addressed. Otherwise, this could result in the accounting treatment of an acquisition of an interest in a joint operation not being fully relevant.

• Finally, we would welcome the IASB to consider more broadly all the issues not currently addressed by IFRS 11 and which may lead to diversity in practice. Among these, we believe that all other changes in ownership with respect to a joint operation should be dealt with by the IASB.

Besides, the proposed amendment results in adopting the view that the accounting treatment of the acquisition of an interest in a joint arrangement should be different depending on the classification of the joint arrangement as either a joint operation or a joint venture (since joint operations are accounted for using a method which is close to proportionate consolidation whereas joint ventures are accounted for in accordance with IAS 28 thus using the equity method). For instance, the accounting for acquisition-related costs would be recognised in expenses as incurred in the case of a joint operation whereas they would be included in the cost of the investment in the case of a joint venture. We wonder if such a difference in accounting treatment, among others, is truly justified from a conceptual point of view.

Our answers to the questions raised in the Exposure Draft are shown in the appendix to this letter which summarises our concerns and opinion.

We would be pleased to discuss our comments with you and remain at your disposal should you need further clarification or additional information.

Best regards,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
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?

As mentioned in our cover letter, we welcome the attempt to address the diversity in practice that has been identified under IAS 31 for the acquisition of an interest in a jointly controlled operation and that will continue with the current version of IFRS 11 for acquisitions of interests in joint operations if no amendment is made. We acknowledge that there is a need for additional guidance and it is time to address the issue.

Nevertheless, we reiterate our concerns as to the difference in accounting treatment that is being made regarding the acquisition of an interest in a joint operation vs the acquisition of an interest in a joint venture. Though this difference is a logical consequence given that joint operations and joint ventures are not accounted for the same way, we question the rationale behind this from a conceptual point of view. We also reiterate the other concerns as listed in our cover letter.

Having said that, we believe it is relevant to apply the principles of IFRS 3 to an acquisition of an interest in a joint operation which activity constitutes a business, as presented under the proposed paragraph B33A of the application guidance. In particular, we agree with the fact that the acquisition of an interest in a joint operation may lead to the recognition of goodwill in such case.

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?

We understand that this proposal is aimed at reducing diversity in practice, as it is the case with the main proposal of this exposure draft discussed at question 1.

We also understand that the proposed amendment to IFRS 11 as regards the acquisition of an interest in a joint operation on its formation should not be applied in case the formation of the joint operation coincides with the formation of the business.
We wonder whether such exception would also apply in case the business is created on the formation of the joint operation, due to the contributions made by each joint operator (thus each joint operator is not, individually, contributing a business to the joint operation but the assets contributed by the joint operators, when put together, constitute an existing business). We believe the amendment should clarify this point.

Besides, we also request further clarification as regards the following situation:

- The parties have acquired an interest in a joint operation on its formation (the joint operation not being structured through a separate vehicle);
- Business is “indirectly” contributed by joint operators to the joint operation on its formation: in practice, each joint operator keeps the dedicated assets and liabilities that form such business (i.e. no transfer is being made to the joint operation though these dedicated assets and liabilities are aimed at developing a business in the frame of the joint arrangement).

How shall such a situation be addressed according to IFRS 11? Would each joint operator be required to apply the principles set out in the proposed paragraph B33A to its own assets and liabilities (dedicated to the joint operation)? Would each joint operator be required to account for the loss of control of the business contributed to the joint operation although it retains a 100% interest in the contributed assets / liabilities?

**Question 3: transition requirements**

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?

Mazars is of the opinion that the proposed amendments should be applied prospectively.

We consider such transition requirements are consistent with the transition requirements of the different versions of IFRS 3. Besides, it is consistent with the requirements under IFRS 1 for a first-time adopter as regards the restatement of business combinations.