financial executives international
canada

April 23, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNIITED KINGDOM

Via “Open to Comment” page, www.iasb.org

RE: ED 2012-7, Acquisition of an Interest in a Joint Operation (Proposed amendment to IFRS 11)

Dear Sir or Madam:

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Accounting Standards Board’s Exposure Draft (ED) 2012-7, Acquisition of an Interest in a Joint Operation - Proposed amendment to IFRS 11 (the ED). We appreciate the opportunity to provide comments.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada’s leading and most influential corporations.

The Committee on Corporate Reporting (“CCR”) is one of two national advocacy committees of FEI Canada, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

Our responses to the questions in the ED's Invitation to Comment are set out in the Appendix.

Thank you for allowing us the opportunity to respond to this proposal.

Yours very truly,

Gordon Heard
Chair – Committee on Corporate Reporting
FEI Canada

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Appendix A:

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?

We agree that the initial accounting for an interest in a joint operation in which the activity of the joint operation is a business is not fully addressed by IFRS 11 at present. We also agree that the application of IFRS 3 is appropriate for situations in which the joint operator purchases an interest in a joint operation that constitutes a business (for example, a purchase of an interest in a producing oil or gas field). In those cases, we agree that the joint operator that has acquired such an interest should initially recognize its share of the assets and liabilities held jointly at their fair value.

However, we believe that additional clarity is necessary to consider some of the issues that are specific to the nature of joint operations. In particular, we would draw your attention to the following:

- Does "acquiring an interest" refer only to a situation where the joint operator had no interest in the joint arrangement previously or does it encompass an increase in an existing interest? We suggest the amendment be more specific about the intended "scope" of "acquiring an interest."
- If "acquiring an interest" does apply to an increase in an interest, what is the proposed approach to account for an increase in an interest that does not result in the acquisition or loss of control? For example, assume Company P increases its interest in Operation P&Q from 45% to 55%, but there is no change in the conclusion around joint control (i.e., Company P and the other joint operator, Company Q, continue to jointly control). There would seem to be two ways in which this increase in interest could be accounted (assuming each party has an equivalent interest in each asset and liability):
    - On the date of purchase of the additional interest, the fair values of the assets and liabilities of Operation P&Q are determined and 10% of these amounts is

    - added to the individual assets and liabilities of Operation P&Q already being recognized by Company P. Any difference between 10% of the fair value of net assets acquired and consideration paid would be recognized as goodwill.
    - As above, except Company P's existing interest of 45% is also remeasured to fair value on the date on which the additional interest is acquired, so the 55% interest in each asset and liability is measured consistently.
- Because joint operations include those arrangements that would have previously been classified as jointly controlled assets and jointly controlled operations under IAS 31, it would be helpful to have examples illustrating the principles in the ED. For example, assume that Party A has contributed assets to a joint operation relating to the front-end of the manufacturing process, while Party B has contributed assets and expertise related to the back-end, and these two parties share output 60:40. The joint arrangement is structured through a separate vehicle; however, based on other facts and circumstances, it is determined that the arrangement is a joint operation. There is a variety of situations that can arise in this scenario, and it is not clear that the proposed amendments adequately consider the accounting implications. Below are a few examples, which are not all-inclusive:
    - Each of Party A and B contributed a pre-existing business? Who is the acquirer if there is joint control? Is the joint arrangement the acquirer of both businesses?
    - If Party A contributes assets that are not a business and Party B contributes a business, then goodwill may arise on the business. Does any of that goodwill belong to Party A or does all of it belong to Party B?
    - Continuing the above scenario, if Party A contributes additional assets 3 years after initial formation of the joint operation and receives an additional 5% of the output, does it then record goodwill because the joint arrangement as a whole meets the definition of a business?

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?

With respect to the formation of a joint operation, we are not convinced that IFRS 3-based principles should be applied to the contribution of a business. Consider the following example by way of illustration: Assume that Party C contributes a subsidiary that is a business to the formation of joint operation X, while Party D contributes cash. Each party has a 50% interest and shares output in this same proportion. Both C and D are acquiring an interest in a joint operation in accordance with B33A and there is an existing business in accordance with B33B.

From Party D's perspective, it would make sense to apply IFRS 3 principles to its interest in the business of Joint operation X as it has, in fact, acquired a 50% share of these net assets. However, from Party C's perspective, the application of paragraph B33B requires clarification. In substance, Party C has simply disposed of 50% of its ownership in the subsidiary, and it is unclear to us why it should remeasure all of the assets and liabilities contributed at fair value (subject to the exceptions in IFRS 3). This approach could result in the recognition of internally-generated goodwill, which is not permitted under IAS 38, and would also be contrary to the guidance in paragraph 38 of IFRS 3 (which refers only to retaining control and not to joint control).

As an alternative to the proposed approach recommended in the ED, we would suggest that Party C recognize the retained interest in the net assets contributed at carrying valued, while the 50% that has been acquired by Party D would be recognized at fair value. This would recognize that while C is acquiring an interest in a joint operation, it is not acquiring a new interest in a business. While this is one example among many possibilities, we do feel that it illustrates the inconsistency being proposed by the ED.

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 requirements? Why or why not? If not, what alternative do you propose?

Yes, we agree.

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