

## STAFF PAPER

July 2014

## IFRS Interpretations Committee Meeting

<b>Project</b>	<b>IFRS 11 <i>Joint Arrangements</i></b>		
<b>Paper topic</b>	<b>Cover note</b>		
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## Introduction

1. This Agenda Paper provides an overview of the Agenda Papers on the issues related to IFRS 11 *Joint Arrangements* for the July 2014 meeting of the IFRS Interpretations Committee (the Interpretations Committee).

## Background

2. The Interpretations Committee received several requests with regard to the application of the requirements of IFRS 11 *Joint Arrangements*. The Interpretations Committee has discussed relevant issues at its meetings in November 2013, January 2014, March 2014 and May 2014.

### Discussion at the November 2013 meeting

3. The Interpretations Committee was presented with a summary of the results of the outreach that was conducted on implementation issues arising from IFRS 11. The summary of the results of the outreach included (1) views from respondents on the various issues identified in the outreach request and (2) additional issues raised through the feedback from the outreach request.
4. The Interpretations Committee identified the following priority issues for further consideration:

- (a) **(Issue 1)** whether an assessment of ‘other facts and circumstances’ should take into account facts and circumstances that do not involve contractual and (legal) enforceable terms; and
- (b) **(Issue 2)** how the parties to a joint operation should recognise assets, liabilities, revenues and expenses, especially if the parties’ interests in the assets and liabilities differ from their ownership interest in the joint operation.

**Discussion at the January 2014 meeting**

- 5. The staff presented an analysis of Issue 1, covering the following five sub-issues.
  - (a) **Issue 1A**—Should the assessment of ‘other facts and circumstances’ be based only on contractual (and legal) enforceable terms?
  - (b) **Issue 1B**—Does the fact that the output from the joint arrangement is sold at a market price prevent the joint arrangement from being classified as a joint operation, when assessing ‘other facts and circumstances’?
  - (c) **Issue 1C**—Does financing from a third party prevent an arrangement from being classified as a joint operation?
  - (d) **Issue 1D**—Does the nature of the output produced by the joint arrangement determine the classification of a joint arrangement when assessing ‘other facts and circumstances’?
  - (e) **Issue 1E**—When assessing ‘other facts and circumstances’ in the case in which parties are taking substantially all of the output, is the assessment based on volumes or monetary values?
- 6. The Interpretations Committee tentatively decided not to add Issue 1A to its agenda. With regard to the other issues (including Issues 1B–1E) that were considered, the Interpretations Committee noted that it is important to understand how and why particular facts and circumstances create rights and obligations that result in the joint arrangement being classified as a joint operation. The Interpretations Committee asked the staff to develop examples

to analyse this matter. These examples should include fact patterns illustrating Issues 1B–1E and consider the application of IFRS 11 to some common joint arrangement structures.

7. The Interpretations Committee also asked for this analysis to consider the implications for accounting within separate financial statements. The Interpretations Committee’s discussion led it to say that after it had considered this further analysis, it would decide whether to recommend adding examples or other guidance to the Standard.

#### **Discussion at the March 2014 meeting**

8. At its March 2014 meeting, the Interpretations Committee discussed how and why ‘other facts and circumstances’ might create rights and obligations that result in a joint arrangement being classified as a joint operation. The Interpretations Committee considered an analysis of various examples (relating to Issues 1B–1E) aimed at illustrating the application of the related guidance in IFRS 11 and noted that the analysis can be useful in understanding the guidance in IFRS 11. However, the Interpretations Committee noted that the examples are fact-specific and thought that adding illustrative examples to IFRS 11 might not be the most effective way of clarifying the issues raised.
9. The Interpretations Committee noted that ‘other facts and circumstances’ need to be assessed when the joint arrangement is structured through a separate vehicle, but neither the legal form of that vehicle nor the contractual agreement result in the parties having direct rights to the assets and direct obligations for the liabilities of the joint arrangement. It noted that the purpose of assessing ‘other facts and circumstances’ is to consider whether the substance of the joint arrangement gives the parties rights to the assets and obligations for the liabilities relating to the joint arrangement. Some members of the Interpretations Committee described this as a ‘substance over form’ approach. The Interpretations Committee noted that the concept of ‘substance over form’ may not be consistently understood or applied in practice.

Consequently, the Interpretations Committee decided to consult the IASB on this matter before progressing this issue further.

10. The Interpretations Committee also asked the staff to provide an analysis of some common joint arrangement structures, which includes types of joint arrangement structures that have different features from the ones that were identified in Agenda Paper 5B for the March 2014 Interpretations Committee meeting.

**Discussion at the May 2014 meeting**

11. The Interpretations Committee discussed feedback from the informal consultation with IASB members on the issue of how to apply the concept of ‘substance over form’ when assessing ‘other facts and circumstances.’ The Interpretations Committee noted that the IASB members consulted generally agree with the Interpretations Committee’s view that the assessment of ‘other facts and circumstances’ should focus on whether the parties to the joint arrangement have rights and obligations that can be identified to be, in substance, direct rights to the assets and direct obligations for the liabilities of the joint arrangement.
12. The Interpretations Committee also discussed the accounting by a joint operation that is a separate vehicle and decided to consult IASB members on its observations that:
  - (a) IFRS 11 applies only to the accounting by the joint operators but not to the accounting by the separate vehicle that is a joint operation;
  - (b) therefore, the financial statements of the separate vehicle would be prepared in accordance with applicable Standards;
  - (c) it will be important to focus on the nature of the reporting entity when preparing the financial statements of the separate vehicle; and
  - (d) when preparing these financial statements, it will be necessary to understand the joint operators’ rights and obligations and account for the effects of those rights and obligations on the assets and liabilities of the separate vehicle.

13. The Interpretations Committee considered the next steps with regard to issues relating to the classification of joint arrangements. It noted that an issue (ie the classification of a common joint arrangement structure, so-called ‘project entity’), is scheduled to be discussed at its July 2014 meeting and this discussion could affect the consideration of the next steps. Consequently, the Interpretations Committee noted that it will make a decision on the next steps after that discussion.
14. In addition, the Interpretations Committee noted that it plans to discuss an issue relating to the recognition and measurement of joint operations when the parties’ interests in the assets and liabilities differ from their ownership interest in the joint operation at its July 2014 meeting.

### **Structure of the Agenda Papers**

15. In response to the requests from the Interpretations Committee at its March and May 2014 meeting as noted above, we are providing the papers to the July 2014 Interpretations Committee meeting as follows:
- (a) **Agenda Paper 2A**—Feedback from consultations with IASB members
  - (b) **Agenda Paper 2B**—Consideration of a specific type of joint arrangement structure<sup>1</sup>
  - (c) **Agenda Paper 2C**—Accounting treatment when the joint operators’ share of output purchased differs from their share of ownership interest in the joint operation
  - (d) **Agenda Paper 2D**—Consideration of next steps

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<sup>1</sup> A request made at the March 2014 Interpretations Committee meeting