

## STAFF PAPER

March 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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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

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

## Background

1. The IFRS Interpretations Committee (the Interpretations Committee) received several requests with regard to the application of the requirements of IFRS 11 *Joint Arrangements*.
2. At its November 2013 meeting, 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.
3. In the discussion at its November 2013 meeting, 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.
4. The Interpretations Committee also asked the staff to identify the issues that would require further guidance and the issues that can be resolved within the context of the current Standards.
5. At its January 2014 meeting, 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?

### **Issue 1A**

6. With regard to Issue 1A, the Interpretations Committee tentatively decided not to add the issue to its agenda. The Interpretations Committee noted that paragraph 14 of IFRS 11 requires the classification of a joint arrangement as a joint operation or a joint venture to depend on rights to the assets and obligations for the liabilities of the parties to the arrangement, and that rights and obligations, by their nature, are enforceable.
7. The Interpretations Committee also noted that paragraph B30 of IFRS 11 describes that when ‘other facts and circumstances’ give the parties rights to the assets, and obligations for the liabilities relating to the arrangement, the assessment of ‘other facts and circumstances’ would lead to the joint arrangement being classified as a joint operation. Consequently, the Interpretations Committee noted that the assessment of ‘other facts and circumstances’ should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities.

### **Issues 1B–1E**

8. 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.
9. 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.

## Structure of the Agenda Papers

2. In response to the requests from the Interpretations Committee at its January 2014 meeting as noted above, we are providing the papers to the March 2014 Interpretations Committee meeting as follows:
  - (a) **Agenda Paper 5A**—Analysis of how and why ‘other facts and circumstances’ create rights and obligations that result in the joint arrangement being classified as a joint operation, including fact patterns illustrating Issues 1B–1E.
  - (b) **Agenda Paper 5B**—Consideration of the application of IFRS 11 to some common joint arrangement structures<sup>1</sup>

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<sup>1</sup> We will address an issue of implication for accounting within separate financial statements at a future meeting, which is another request made by the Interpretations Committee at its January 2014 meeting.