

STAFF PAPER

May 2014

IFRS Interpretations Committee Meeting

Project	IFRS 11 <i>Joint Arrangements</i>		
Paper topic	Classification of joint arrangements		
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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. 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 reviewed these requests and identified, as a priority issue, the question of how to assess ‘other facts and circumstances’ when classifying a joint arrangement as either a joint operation or a joint venture.
3. At its January 2014 meeting, the Interpretations Committee considered whether the assessment of ‘other facts and circumstances’ should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity’s business needs and the entity’s past practices.
4. 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 nature, are enforceable.

5. The Interpretations Committee 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.
6. On the basis of the analysis above, the Interpretations Committee tentatively decided not to add this issue to its agenda.

Comments received

7. We received three comment letters¹ on the Interpretations Committee’s tentative agenda decision, which are attached to this paper as Appendix B.
8. All of the three letters (the Canadian Accounting Standards Board (AcSB), Deloitte Touche Tohmatsu Limited and European Securities and Markets Authority (ESMA)) agreed with the Interpretations Committee’s decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.
9. One of the letters (from the European Securities and Markets Authority (ESMA)) made additional comments on the following two points:

ESMA notes that the January 2014 IFRIC Update states that the IFRS IC will deal with additional matters² related to the

¹ The Canadian Accounting Standards Board (AcSB), Deloitte Touche Tohmatsu Limited and European Securities and Markets Authority (ESMA).

assessment of ‘other facts and circumstances’ and develop examples or other implementation material. ESMA is of the view that when developing such examples, other implementation guidance or educational material, the IFRS IC should follow the guidance provided by this agenda decision. That is to say that the assessment of ‘other facts and circumstances’ shall focus on those that create enforceable rights to the assets and obligations for the liabilities.

As a last point we note that the IFRS IC considered during the November 2013 meeting that among a list of issues related to IFRS 11, the issue related to ‘how the parties to a joint arrangement 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’ was a priority issue for further consideration. ESMA believes that this is an important topic and would encourage the IFRS IC to consider it as soon as possible, especially as IFRS 11 is currently being implemented across the EU.

Staff analysis

10. We will examine the two points that ESMA made, in the following analysis:
 - (a) **Point A**—consideration of this agenda decision when developing examples or other implementation materials with regard to matters related to the assessment of ‘other facts and circumstances; and

² Should the assessment of ‘other facts and circumstances’ be based only on contractual (and legal) enforceable terms? 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’? Does financing from a third party prevent an arrangement from being classified as a joint operation? Does the nature of the output produced by the joint arrangement determine the classification of a joint arrangement when assessing ‘other facts and circumstances’? When assessing ‘other facts and circumstances’ in the case in which parties are taking substantially all the output, is the assessment based on volumes or monetary value?

- (b) **Point B**—addressing the topic relating to the recognition and measurement of the joint arrangement as soon as possible.
11. With regard to Point A, we note that several matters related to the assessment of ‘other facts and circumstances’ were discussed at the March 2014 Interpretations Committee meeting. The Interpretations Committee, however, did not reach a consensus on whether to add illustrative examples to IFRS 11 with regard to those matters. Instead, the Interpretations Committee decided to continue discussing in a future meeting how and why ‘other facts and circumstances’ might create rights and obligations that result in a joint arrangement being classified as a joint operation, after consulting IASB members on how to apply ‘substance over form’ when assessing ‘other facts and circumstances’³. We also note that discussions and observations at the March 2014 meeting were consistent with this agenda decision at its January 2014 meeting.
12. Consequently, we think that if the Interpretations Committee were to develop any illustrative examples for IFRS 11 in a future meeting, we expect that those examples would be consistent with this agenda decision. In other words, those examples would reflect the fact 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.
13. With regard to Point B, the Interpretations Committee acknowledged in its November 2013 meeting that the issue of the recognition and measurement of the joint arrangement is one of the priority issues. It has been necessary to focus on the first priority issue of how ‘other facts and circumstances’ affect the classification of the joint arrangement. Consequently, the staff aim to bring an analysis of the issue that ESMA raises to the July 2014 Interpretations Committee meeting.

³ Agenda Paper 2A for this May 2014 Interpretations Committee meeting deals with a result of the consultation with IASB members.

Staff recommendation

14. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. The proposed wording of the final agenda decision is shown in Appendix A to this paper.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda?
2. Does the Interpretations Committee have any comments on the proposed wording in Appendix A for the final agenda decision?

Appendix A—Proposed wording for final agenda decision

- A1 The proposed wording for the final agenda decision is presented below (new text is underlined and deleted text is struck through).

IFRS 11 *Joint Arrangements*—Classification of joint arrangements

The Interpretations Committee received a request to clarify how the assessment of ‘other facts and circumstances’ described in IFRS 11 *Joint Arrangements* affects the classification of a joint arrangement as a joint operation or a joint venture.

The Interpretations Committee considered whether the assessment of ‘other facts and circumstances’ should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity’s business needs and the entity’s past practices.

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 nature, are enforceable.

The Interpretations Committee 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 be focused on whether those facts and circumstances

create enforceable rights to the assets and obligations for the liabilities.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, no Interpretation or amendment to the Standard was required. Consequently, the Interpretations Committee {decided} not to add this issue to its agenda.

Appendix B—Comment letters received

April 8, 2014

(by e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IFRS 11 *Joint Arrangements*—Classification of joint arrangements

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on how the assessment of 'other facts and circumstances' described in IFRS 11 *Joint Arrangements* affects the classification of a joint arrangement as a joint operation or a joint venture. This tentative agenda decision was published in the January 2014 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

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April 8, 2014
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We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Grace Lang, Principal, Accounting Standards at +1 416 204-3478 (e-mail glang@cpacanada.ca).

Yours truly,

A handwritten signature in black ink that reads "Peter Martin". The signature is written in a cursive, slightly slanted style.

Peter Martin, CPA, CA

Director, Accounting Standards

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

7 April 2014

Dear Mr Upton

Tentative agenda decision - IFRS 11 *Joint Arrangements*: Classification of joint arrangements

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the assessment of 'other facts and circumstances' in classifying a joint arrangement (specifically, whether the assessment of 'other facts and circumstances' should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities or whether that assessment should also consider the design and purpose of the joint arrangement, the entity's business needs and the entity's past practices).

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

**Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom**

**Re: The IFRS Interpretations Committee's tentative agenda decision on
IFRS 11 – *Joint Arrangements: Classification of Joint Arrangements***

Dear Mr. Upton,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered the IFRS Interpretations Committee's (IFRS IC) tentative decision not to add to its agenda the request for clarification it received on the application of IFRS 11 – *Joint Arrangements* in relation to the assessment of the '*other facts and circumstances*'.

ESMA supports the IFRS IC's draft rejection stating that the assessment of '*other facts and circumstances*' should be focused on whether those facts and circumstances create enforceable rights to the assets and obligations to the liabilities. ESMA considers that this tentative decision clarifies the interaction between paragraphs 14 and B30 of IFRS 11.

ESMA notes that the January 2014 IFRIC Update states that the IFRS IC will deal with additional matters¹ related to the assessment of '*other facts and circumstances*' and develop examples or other implementation material. ESMA is of the view that when developing such examples, other implementation guidance or

¹ Should the assessment of « other facts and circumstances » be based only on contractual (and legal) enforceable terms? 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"? Does financing from a third party prevent an arrangement from being classified as a joint operation? Does the nature of the output produced by the joint arrangement determine the classification of a joint arrangement when assessing "other facts and circumstances"? When assessing "other facts and circumstances" in the case in which parties are taking substantially all the output, is the assessment based on volumes or monetary values?



educational material, the IFRS IC should follow the guidance provided by this agenda decision. That is to say that the assessment of *'other facts and circumstances'* shall focus on those that create enforceable rights to the assets and obligations for the liabilities.

As a last point we note that the IFRS IC considered during the November 2013 meeting that among a list of issues related to IFRS 11, the issue related to *'how the parties to a joint operation should recognised assets, liabilities, revenues and expenses, especially if the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation'* was a priority issue for further consideration. ESMA believes that this is an important topic and would encourage the IFRS IC to consider it as soon as possible, especially as IFRS 11 is currently being implemented across the EU.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S Maijoor', written over a horizontal line.

Steven Maijoor

Chair

European Securities and Markets Authority