

## STAFF PAPER

May 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 May 2014 meeting of the IFRS Interpretations Committee (the Interpretations Committee).

## Background

2. The IFRS Interpretations Committee (the Interpretations Committee) received several requests with regard to the application of the requirements of IFRS 11 *Joint Arrangements*.
3. 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.
4. 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.
5. At the January 2014 Interpretations Committee 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?

6. At its January 2014 meeting, 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.
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.

10. The Interpretations Committee, when considering the concept of ‘substance over form’, observed that in order for ‘other facts and circumstances’ to result in the parties having obligations for the liabilities of a joint arrangement, it is necessary to demonstrate that cash cascades from the parties through legal or contractual obligations to ensure the settlement of the liabilities of the joint arrangement on a continuous basis. The Interpretations Committee therefore thought that the parties’ intention to support the joint arrangement was insufficient to establish obligations for the liabilities of the joint arrangement. Notwithstanding this observation, 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.
  
11. 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.

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

12. In response to the requests from the Interpretations Committee at its January and March 2014 meeting as noted above, we are providing the papers to the May 2014 Interpretations Committee meeting as follows:
  - (a) **Agenda Paper 2A**—Feedback from consultations with IASB members
  
  - (b) **Agenda Paper 2B**—Implication for accounting within separate financial statements<sup>1</sup>

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

- (c) **Agenda Paper 2C**—Consideration of the direction going forward