Appendix A—Final agenda decisions

A1. We propose the following wording for each agenda decision, showing changes from the tentative agenda decision. Deleted text is struck through and new text is underlined.

(a) The proposed wording for Agenda decision A is as follows (no change from the tentative agenda decision):

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: the assessment of 'other facts and circumstances'

In May 2014 the Interpretations Committee published an agenda decision in the IFRIC *Update* with regard to an issue of how an assessment of 'other facts and circumstances' as noted in paragraph 17 of IFRS 11 should be performed.

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 the rights to the assets and the obligations for the liabilities of <u>a party</u> ~~the parties~~ to the arrangement~~, and that rights and obligations, by nature, are enforceable~~.

The Interpretations Committee also noted that paragraph B30 of IFRS 11 explains that the assessment of other facts and circumstances would lead to the joint arrangement being classified as a joint operation when those other facts and circumstances give <u>a party</u> ~~the parties~~ both rights to the assets, and obligations for the liabilities, relating to the arrangement.

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 <u>legal or constructive</u> obligations for the liabilities.

The Interpretations Committee also discussed how and why particular facts and circumstances create rights to the assets and obligations for the liabilities. This discussion is described below.

How and why particular facts and circumstances create rights and obligations

The Interpretations Committee discussed how and why particular facts and circumstances create rights and obligations that result in the joint arrangement being classified as a joint operation when the joint arrangement is structured through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right.

The Interpretations Committee noted that the assessment of other facts and circumstances is performed when there is no contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle through which the arrangement has been structured. The assessment of other facts and circumstances thus focuses on whether the other facts and circumstances establish, for a party ~~the parties~~ to the joint arrangement, rights to the assets and obligations (legal or constructive) for the liabilities relating to the joint arrangement.

The Interpretations Committee, referring to paragraphs B31–B32 of IFRS 11, observed that parties to the joint arrangement have rights to assets of the joint arrangement through the assessment of other facts and circumstances when they:

(a) have rights to substantially all of the economic benefits (for example, 'output') of assets of the arrangement; and
(b) have obligations to acquire those economic benefits and thus assume the risks relating to those economic benefits (for example, the risks relating to the output).

The Interpretations Committee, referring to paragraphs B14 and B32–B33 of IFRS 11, also observed that parties to the joint arrangement have obligations for liabilities of the joint arrangement through the assessment of other facts and circumstances when:

(a) as a consequence of their rights to, and obligations for, the assets of the joint arrangement, they provide cash flows that are used to settle liabilities of the joint arrangement; and
(b) settlement of the liabilities of the joint arrangement occurs in this manner on a continuous basis.

On the basis of these observations, the Interpretations Committee noted that when a party ~~the parties~~ to a joint arrangement meets the criteria and therefore has~~ve~~ both rights to assets of the joint arrangement and obligations for liabilities of the joint arrangement through the assessment of other facts and circumstances, a joint arrangement structured through a separate vehicle is a joint operation.

Consequently, the Interpretations Committee observed that, in order to classify the joint arrangement as a joint operation as a result of assessing other facts and circumstances, it is necessary to demonstrate that:

(a) a party ~~the parties~~ to the joint arrangement has~~ve~~ rights and obligations relating to economic benefits of the assets of the arrangement; and
(b) it~~they~~ provides cash to the arrangement through legal or contractual obligations, which is used to settle the liabilities of the joint arrangement on a continuous basis.

Implication of 'economic substance'

Some members of the Interpretations Committee observed that the concept of 'economic substance' may not be consistently understood or applied in practice with regard to the assessment of other facts and circumstances.

The Interpretations Committee confirmed that the assessment of other facts and circumstances should focus on whether a party ~~the parties~~ to the joint arrangement has~~ve~~ rights to the assets, and obligations (legal or constructive) for the liabilities, relating to the joint arrangement. Consequently, the Interpretations Committee, by referring to paragraph BC43 of IFRS 11, noted that the consideration of other facts and circumstances is not a test of whether a party ~~the parties~~ to the joint arrangement is ~~are~~ closely or fully involved with the operation of the separate vehicle, but is instead a test of whether other facts and circumstances override the rights and obligations conferred upon the party~~parties~~ by the legal form of the separate vehicle.

On the basis of this analysis, the Interpretations Committee determined that the assessment of other facts and circumstances should be undertaken with a view towards whether those facts and circumstances create ~~enforceable~~ rights to assets and obligations (legal or constructive) for liabilities. That assessment is made in the light of the existing IFRS requirements. Accordingly, the Interpretations Committee concluded that sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

(b) The proposed wording for Agenda decision B is as follows:

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns

The Interpretations Committee discussed how other facts and circumstances should be applied to some specific fact patterns. It identified four different cases and considered how particular features of those fact patterns would affect the classification of the joint arrangement when assessing other facts and circumstances. The observations from the discussions are as follows.

Output sold at a market price

The Interpretations Committee discussed whether the fact that the output from the joint arrangement is sold to the parties of the joint arrangement at a market price prevents the joint arrangement from being classified as a joint operation, when assessing other facts and circumstances.

The Interpretations Committee observed that the sale of output from the joint arrangement to the parties at market price, on its own, is not a determinative factor for the classification of the joint arrangement. It noted that the parties would need to consider, among other things, whether the cash flows provided to the joint arrangement through the parties' purchase of the output from the joint arrangement at market price, along with any other funding from the parties, would be sufficient to enable the joint arrangement to settle its liabilities on a continuous basis.

Accordingly, the Interpretations Committee noted that exercising judgement is needed in this situation to determine whether the arrangement is a joint operation based on other facts and circumstances.

Financing from a third party

The Interpretations Committee discussed whether financing from a third party prevents a joint arrangement from being classified as a joint operation.

The Interpretations Committee noted that if the cash flows to the joint arrangement from the sale of output to the parties, ~~to the joint arrangement~~ along with any other funding from the parties, satisfy the joint arrangement's liabilities, ~~fund the repayment of the external financing,~~ then third-party financing alone would not affect the classification of the joint arrangement.

Nature of output (ie fungible or bespoke output)

The Interpretations Committee discussed whether the nature of the output (ie fungible or bespoke output) produced by the joint arrangement determines the classification of a joint arrangement when assessing other facts and circumstances.

The Interpretations Committee noted that whether the output that is produced by the joint arrangement and purchased by the parties is fungible or bespoke is not a determinative factor for the classification of the joint arrangement. It also noted that the focus of 'obligation for the liabilities' in IFRS 11 is on the existence of cash flows flowing from ~~between~~ the parties to satisfy the joint operation's liabilities ~~and the joint operation~~ as a consequence of the parties' rights to, and obligations for, the assets of the joint arrangement, regardless of the nature of the product (ie fungible or bespoke output).

Determining the basis for 'substantially all of the output'

The Interpretations Committee discussed whether volumes of output or monetary values of output should be the basis for determining whether the parties to the joint arrangement are taking 'substantially all of the output' from the joint arrangement when assessing other facts and circumstances.

The Interpretations Committee, referring to paragraphs B31–B32 of IFRS 11, noted that in order to meet the criteria for classifying the joint arrangement as a joint operation through the assessment of other facts and circumstances:

(a) the parties to the joint arrangement should have rights to substantially all the economic benefits of the assets of the joint arrangement; and
(b) the joint arrangement should be able to settle its liabilities from the 'cash flows' received as a consequence of the parties' rights to, and assumed risks from, ~~obligations for~~ the assets of the joint arrangement.

The Interpretations Committee therefore noted that the economic benefits of the assets of the joint arrangement would relate to the cash flows arising from the parties' rights to, and assumed risks from, ~~obligations for~~ the assets. Consequently, it noted that the assessment is based on the monetary value of the output, instead of physical quantities.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add these issues to its agenda.

(c) The proposed wording for Agenda decision C is as follows (no change from the tentative agenda decision):

IFRS 11 *Joint Arrangements*—Classification of joint arrangements: consideration of two joint arrangements with

similar features that are classified differently

The Interpretations Committee discussed a circumstance in which two joint arrangements would be classified differently when they have similar features apart from the fact that one is structured through a separate vehicle and the other is not (in circumstances in which the legal form confers separation between the parties and the separate vehicle). Two such joint arrangements could be classified differently because:

(a) the legal form of a joint arrangement structured through a separate vehicle must be overridden by other contractual arrangements or specific other facts and circumstances for the joint arrangement to be classified as a joint operation; but

(b) a joint arrangement that is not structured through a separate vehicle is classified as a joint operation.

The Interpretations Committee noted that IFRS 11 could lead to two joint arrangements being classified differently if one is structured through a separate vehicle and the other is not, but in other respects they have apparently similar features. This is because the legal form of the separate vehicle affects the rights and obligations of the parties to the joint arrangement when assessing the type of joint arrangement, as noted, for example, in paragraphs B22 and BC43 of IFRS 11.

The Interpretations Committee thought that such different accounting would not conflict with the concept of economic substance. This is because, according to the approach adopted in IFRS 11, the concept of economic substance means that the classification of the joint arrangement should reflect the rights and obligations of the parties to the joint arrangement and the presence of a separate vehicle plays a significant role in determining the nature of those rights and obligations.

The Interpretations Committee noted that the requirements of IFRS 11 provide the principles necessary for determining the classification of joint arrangements, including assessing the impact of a separate vehicle. The assessment of the classification would depend on specific contractual terms and conditions and requires a full analysis of features involving the joint arrangement.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

(d) The proposed wording for Agenda decision D is as follows:

IFRS 11 *Joint Arrangements*—Accounting by the joint operator: recognition of revenue by a joint operator

The Interpretations Committee discussed whether a joint operator should recognise revenue in relation to the output purchased from the joint operation by the parties. This issue relates to the application of paragraph 20(d) of IFRS 11, which requires a joint operator to recognise its share of the revenue from the sale of the output by the joint operation.

Examining paragraph 20(d) of IFRS 11, the Interpretations Committee noted that if the joint arrangement is structured through a separate vehicle and the assessment of other facts and circumstances results in the joint arrangement being classified as a joint operation, because the parties take all the output of the joint arrangement, the application of paragraph 20(d) of IFRS 11 would not result in the recognition of revenue by the parties. This is because if the joint operators purchase all the output from the joint operation, they would recognise 'their revenue' only when they sell the output to third parties.

In other words, the joint operators would not recognise any amount in relation to the 'share of the revenue from the sale of the output by the joint operation'. This is because a joint operator that has an obligation to purchase the output from the joint operation has rights to the assets of the joint operation; accordingly, the sale of the output by the joint operation to the joint operator would mean selling output to itself; and, therefore, the joint operator would not recognise a share of the revenue from the sale of that output by the joint operation.

Accordingly, paragraph 20(d) of IFRS 11 would result in the recognition of revenue by a joint operator only when the joint operation sells its output to third parties. For this purpose, third parties do not include other parties to the joint operation.

The Interpretations Committee also noted that there could be a case in which some parties to the joint operation would recognise revenue even when they purchase all the output from the joint operation. It noted that this could happen when:

(a) the joint operation sells its output to the parties to the joint operation at market price; and
(b) the purchase of output by the joint operators is not proportional to their rights to the output.

This is because a party purchasing proportionally less output compared to its rights to the output, in substance, sells (part of) 'its share' of the output to the other joint operator(s) through the joint operation. The Interpretations Committee noted that in this case the selling party would recognise revenue in accordance with paragraph 20(c), rather than 20(d) of IFRS 11.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

(e) The proposed wording for Agenda decision F is as follows:

IFRS 11 *Joint Arrangements*—Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation

The Interpretations Committee discussed the accounting when the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation.

For the purposes of this discussion, the Interpretations Committee considered a fact pattern in which the joint arrangement is structured through a separate vehicle and for which the parties to the joint arrangement have committed themselves to purchase substantially all of the output produced at a price designed to achieve a break-even result. In this fact pattern, the parties to the joint arrangement would be considered to have rights to the assets and obligations for the liabilities. Such a joint arrangement is presented in Example 5 of the application guidance to IFRS 11 and is classified as a joint operation. A variation of such a fact pattern could (and does) arise in which the parties' percentage ownership interest in the separate vehicle differs from the percentage share of the output produced that each party is obliged to purchase.

The Interpretations Committee, referring to paragraph 20 of IFRS 11, noted that the joint operators of such a joint operation would account for their assets, liabilities, revenues and expenses in accordance with the shares specified in the contractual arrangement. However, when an assessment of other facts and circumstances has concluded that the joint arrangement is a joint operation, and the joint arrangement agreement does not specify the allocation of assets, liabilities, revenues or expenses, the question arises about what share of assets, liabilities, revenue and expenses each joint operator should recognise. Specifically, should the share of assets, liabilities, revenue and expenses recognised reflect the percentage of ownership of the legal entity, or should it reflect the percentage of output purchased by each joint operator?

The Interpretations Committee noted that there could be many different scenarios in which the joint operator's share of the output purchased differs from its share of ownership interest in the joint operation: for example, when the share of output purchased by each party varies over the life of the joint arrangement. A key issue that arises in this situation is over what time horizon should the share of output be considered.

The Interpretations Committee also noted that if the joint operators made a substantial investment in the joint operation that differed from their ownership interest, there might be other elements of the arrangements that could explain why there is a difference between the percentage of ownership interest and the percentage share of the output produced that each party is obliged to purchase. It noted that the identification of the other elements may provide relevant information to determine how to account for the difference between the two.

Consequently, the Interpretations Committee noted that it is important to understand why the share of the output purchased differs from the ownership interests in the joint operation. Judgement will therefore be needed to determine the appropriate accounting.

~~On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.~~

~~Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.~~

The Interpretations Committee noted that notwithstanding the observations above, there remained concerns about the sufficiency of the guidance in IFRS 11 on the accounting by a joint operator in the circumstances described. The Interpretations Committee noted that to develop additional guidance for this issue would require a broader analysis than could be achieved by the Interpretations Committee.

Consequently, the Interpretations Committee decided not to add the issue to its agenda but to bring this matter to the attention of the IASB.

(f) The proposed wording for Agenda decision F is as follows (no change from the tentative agenda decision):

IFRS 11 *Joint Arrangements*—Accounting in separate financial statements: accounting by the joint operator in its separate financial statements

The Interpretations Committee discussed the issue of the accounting by a joint operator in its separate financial statements for its share of assets and liabilities of a joint operation when that joint operation is structured through a separate vehicle. The Interpretations Committee noted that IFRS 11 requires the joint operator to account for its rights and obligations in relation to the joint operation. It also noted that those rights and obligations are the same whether separate or consolidated financial statements are prepared, by referring to paragraph 26 of IFRS 11. Consequently, the same accounting is required in the consolidated financial statements and in the separate financial statements of the joint operator.

The Interpretations Committee also noted that IFRS 11 requires the joint operator to account for its rights and obligations, which are its share of the assets held by the entity and its share of the liabilities incurred by it. Accordingly, the Interpretations Committee observed that the joint operator would not additionally account in its separate or consolidated financial statements for its shareholding in the separate vehicle, whether at cost in accordance with IAS 27 *Separate Financial Statements* or at fair value in accordance with IFRS 9.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

(g) The proposed wording for Agenda decision G is as follows:

IFRS 11 *Joint Arrangements*—Accounting in separate financial statements: accounting by the joint operation that is a separate vehicle in its financial statements

The Interpretations Committee discussed the issue of the accounting by a joint operation that is a separate vehicle in its financial statements. The recognition by joint operators in both consolidated and separate financial statements of their share of assets and liabilities held by the joint operation leads to the question of whether those same assets and liabilities should also be recognised in the financial statements of the joint operation itself.

The Interpretations Committee noted that IFRS 11 applies only to the accounting by the joint operators and not to the accounting by the separate vehicle that is a joint operation. The financial statements of the separate vehicle would therefore be prepared in accordance with applicable Standards.

Company law often requires a legal entity/separate vehicle to prepare financial statements. Consequently, the reporting entity for the financial statements would include the assets, liabilities, revenues and expenses of that legal entity/separate vehicle.

However, when identifying the assets and liabilities of the separate vehicle, it is necessary to understand the joint operators' rights and obligations relating to those assets and liabilities and how those rights and obligations affect those assets and liabilities. The Interpretations Committee noted that it will be important to reflect the effects of the joint operators' rights and obligations arising from contractual arrangements with the joint operators in the accounting for the joint operation's assets and liabilities.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary.

Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.