IFRS

STAFF PAPER

12 May 2015

IFRS Interpretations Committee Meeting

Project	**IFRS 11 *Joint Arrangements***
Paper topic	Becoming a joint operator through acquisition of an additional interest in an existing joint operation

CONTACT(S) Jawaid Dossani jdossani@ifrs.org +44 (0)20 7332 2742

Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify whether a previously held interest in the assets and liabilities of a joint operation should be remeasured to fair value when an investor's acquisition of an additional interest results in the investor becoming a joint operator (ie assuming joint control) of the investee.
2. The objective of this agenda paper is to provide the Interpretations Committee with a summary of the issue and the staff's research and analysis.
3. The submission is reproduced in full in Appendix B to this agenda paper.

Structure of the agenda paper

4. This paper is organised as follows:
   (a) Background information;
   (b) Summary of outreach conducted;
   (c) Staff analysis;
   (d) Assessment against the Interpretations Committee's agenda criteria;
   (e) Staff recommendation;

(f) Questions for the Interpretations Committee;

(g) Appendix A—Proposed amendment; and

(h) Appendix B—Submission.

Background information

The issue

5. Paragraph 21A of IFRS 11 *Joint Arrangements* requires an entity to apply '…all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS…' upon acquisition of an interest in a joint operation which meets the definition of a business in accordance with IFRS 3 *Business Combinations*.

6. The submitter describes a scenario in which:

   (a) an entity participates in, but does not have joint control of, a joint operation that meets the definition of a business in accordance with IFRS 3.

   (b) the entity has rights to the assets, and obligations for the liabilities, relating to the joint operation. In accordance with paragraph 23 of IFRS 11, the entity recognises its share of revenue from the sale of output by the joint operation, assets held jointly and expenses and liabilities incurred jointly.

   (c) at a later date, the entity acquires an additional interest in the joint operation, at which point the joint arrangement agreement is amended so that the entity is now a joint operator (ie it has joint control of the joint operation).

   (d) in accordance with paragraph 21A of IFRS 11, the entity applies the principles on business combinations to account for this transaction.

7. For ease of reference, the acquisition of the additional interest and joint control transaction is hereafter referred to as 'the transaction'.

8. The submitter asks whether applying the principles of business combinations accounting to the transaction includes remeasurement of the entity's original share of the assets and liabilities of the joint operation.

9. For ease of reference, the entity's original share of the assets and liabilities of the joint operation is hereafter referred to as 'the entity's original interest'.

10. The submitter has identified the following two divergent views that are developing in practice:

    (a) View 1—the entity's original interest is remeasured; and

    (b) View 2—the entity's original interest is not remeasured.

View 1—the entity's original interest is remeasured

11. Proponents of View 1 argue that paragraph BC45M of IFRS 11 cites the requirement in paragraph 42 of IFRS 3 to remeasure a previously held interest upon obtaining control of an investee and states that '…This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business'. This statement suggests that the reference in paragraph 21A of IFRS 11 to applying the business combinations accounting requirements '…to the extent of its share in accordance with paragraph 20 …' requires the investor to remeasure its aggregate interest in the joint operation and that '…the principles on business combinations accounting in IFRS 3…' includes the remeasurement requirements of paragraph 42 of IFRS 3.

12. In addition, proponents of this view note that the requirement of paragraph B33C of IFRS 11, which states that 'previously held interests in the joint operation are not remeasured if the joint operator retains joint control', could be interpreted to mean that previously held interests are remeasured when joint control is obtained (instead of being retained).

View 2—the entity's original interest is not remeasured

13. Proponents of this view think that the reference in paragraph 21A of IFRS 11 to applying business combinations accounting 'to the extent of its share in

accordance with paragraph 20' refers to the interest being acquired in the subsequent transaction, rather than to the entity's total interest in the joint operation including the entity's original interest. This is, in part, due to concerns over applying the principles of IFRS 3 more than once to the same share of assets and liabilities. It is also partly due to the fact that in the circumstances described above, while the nature of the investor's previously held interest in the joint operation has changed (from passive investment to joint control), the method of accounting for that interest has not changed.

14. Paragraph BC30 of IAS 28 *Investments in Associates and Joint Ventures* states that a change between associate and joint venture status should not result in remeasurement of an investment accounted for using the equity method, because 'there is neither a change in the group boundaries nor a change in the measurement requirements'.

15. Paragraph B33A(d) of IFRS 11 requires the recognition of goodwill at 'the excess of the consideration transferred over the net of… assets acquired and the liabilities assumed'. Proponents of this view argue that because no consideration has been transferred in respect of the previous interest, recognition of additional goodwill in respect of this holding is not appropriate.

Summary of outreach conducted

16. In order to gather information about the issue described in the submission, we sent requests to the International Forum of Accounting Standard-Setters, regulators, global accounting firms and members of the oil and gas industry. Specifically, we asked:

Q1. How common are these transactions in your jurisdiction? (If possible, please provide examples of such transactions that you have observed in practice. Ideally these would be examples from published financial statements but examples provided on a confidential basis will also be useful).

Q2. What is the predominant approach that you observe as developing in practice? In addition, could you please explain the rationale for that approach?

We also asked respondents to explain the basis on which they had prepared their response. For example, if they conducted their own outreach we requested them to tell us the type of stakeholders that responded (e.g. preparers under IFRS in their jurisdictions).

17. The views received represent informal opinions and do not reflect the formal views of those organisations.

Responses from national standard-setters

18. We received 10 responses from national standard-setters. The geographical breakdown for the responses received from the national standard-setters is as follows:

Geographical region	**Number of respondents**
Asia	4
Europe	2
Americas	2
Oceania	2
Africa	0
Total respondents	**10**

19. None of the respondents identified the issue as being common in their jurisdiction.

20. Response was varied on acceptable approaches to account for the entity's original interest in the scenario described by the submitter. Three respondents noted mixed views within their jurisdictions. One respondent thought that remeasurement would be appropriate and one respondent noted a general view to not remeasure previously held interests.

21. One respondent noted that subsequent to the amendments to IFRS 11, there seems to be a lack of clarity as to the appropriate accounting. The respondent also noted a lack of clarity in a situation in which control over a previous joint operation is acquired.

Responses from regulators

22. We received responses from two organisations representing groups of regulators. The respondents indicated that the regulators had very limited experience with the issue.

23. However, the responses indicated that some regulators had observed that paragraphs B33C and BC45 of IFRS 11 were clear in *requiring remeasurement* of previously held interests in the scenario described by the submitter.

Responses from oil and gas industry group

24. We received one response from the oil and gas industry group, which summarised the views from six oil and gas companies.

25. None of the companies who responded had practical experience with this type of transaction. Some noted that the matter is not expected to become relevant, while others noted that it could become relevant, because changes in interests are common within the industry. However, the response also noted that the acquisitions would generally qualify as asset acquisitions and not as acquisitions of a business.

26. Three companies did not support the remeasurement approach for reasons broadly consistent with those outlined by proponents of View 2 as noted in paragraphs 13-15 of this paper. One company supported the remeasurement approach, noting that it would be illogical to apply remeasurement only to the newly acquired shares and not to the aggregate share interest (including the entity's original interest) held at the point of acquiring joint control. Two other companies did not consider the issue to have any relevance.

Responses from accounting networks

27. We received responses from the global IFRS groups of four accounting networks.

28. Three of the networks noted that changes in an investor's interest in a joint operation are fairly common and therefore, the scenario described by the submitter could become a widespread issue. One respondent noted that the type

of transaction described is a ‘relatively common one within the extractive industries’. Another network noted that it has had questions on this issue filter up at the global level. One respondent noted that these transactions are not commonly seen at present and the other respondent noted that it has not received any questions on this issue to date. However, it noted that the Standard remains fairly new and practical experience is accordingly limited.

29. All the networks expect diversity in practice to develop in this area. Two of the networks think that the existing guidance (or lack of it) will lead entities to develop an accounting policy choice for such transactions.

30. One network also pointed out potential diversity in the issue of control being acquired over a joint operation and suggested that the issue should be considered alongside the issue raised. (This is an issue that has been discussed by the Interpretations Committee in the past. A summary of the past discussions on this issue has been presented in the staff analysis section of this paper.) Another network also noted a related issue of an entity losing control, but retaining joint control, of a joint operation and pointed to the diversity of views in that area. One network noted that if the Interpretations Committee believed that both views presented by the submitter were acceptable, this could have consequences on other more common types of transactions such as the formation of a joint operation by the contribution of a business by each of two joint operators.

Staff analysis

Determining the appropriate accounting treatment

31. Paragraphs BC384 and following of IFRS 3 explain that the IASB had decided in favour of the remeasurement-approach for business combinations achieved in stages, because of two main arguments:

    (a) the significant change in the nature of the investment, and in the economic circumstances surrounding the investment, resulting from the acquisition of control (paragraph BC384 of IFRS 3); and

(b) the inconsistencies and deficiencies in financial reporting resulting from cost-accumulation practices (paragraph BC386 of IFRS 3 in conjunction with paragraphs BC198–BC202 of IFRS 3).

32. Consequently, we will now analyse whether or not these arguments support the application of the remeasurement approach in the transaction.

33. Paragraph BC384 of IFRS 3 explains that there is a significant change in the nature of, and economic circumstances surrounding, the investment resulting from the acquisition of control, because the investor-investee relationship is replaced by a parent-subsidiary relationship. In particular:

(a) the change warrants a change in the classification and measurement of the investment;

(b) the acquirer is no longer the owner of a non-controlling investment asset in the acquiree;

(c) the acquirer ceases its accounting for an investment asset and begins reporting in its financial statements the underlying assets, liabilities and results of the operations of the acquiree; and

(d) in effect, the acquirer exchanges its status as an owner of an investment asset in an entity for a controlling financial interest in all of the underlying assets and liabilities of that entity (acquiree), together with the right to direct how the acquiree and its management use those assets in its operations.

34. We understand that paragraph BC384 of IFRS 3 analyses the acquisition of control over investments that were either accounted for using the equity method (ie associates or joint ventures/jointly controlled entities) or as financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

35. On the basis of the analysis above, we think that the change that occurs upon the acquisition of joint control over a joint operation is not as significant as a change that occurs upon the acquisition of control over an associate, a joint venture or a financial asset within the scope of IAS 39 or IFRS 9.

36. This is because we understand that the entity, in the fact pattern submitted, despite not being a joint operator prior to the transaction, had rights to the assets, and obligations for the liabilities, relating to the joint operation. Subsequent to the transaction, the investor continues to have rights to the assets, and obligations for the liabilities relating to the joint operation.

37. Prior to the transaction, the entity would have applied the requirements of paragraph 23 of IFRS 11 to account for its interest in the joint operation. Paragraph 23 of IFRS 11 requires such an entity to account for its interest in the arrangement in accordance with paragraphs 20-22. Paragraphs 20-22 describe the accounting to be applied by a joint operator in preparing its financial statements.

38. Subsequent to the transaction, the entity would continue to apply the requirements of paragraphs 20-22 of IFRS 11 in accounting for its interest in the joint operation.

39. As a consequence of this, there is no change in the method of accounting for the entity's original interest.

40. In our view, this transaction is, therefore, more analogous to a transaction that results in an investment in an associate becoming an investment in a joint venture rather than being an event that warrants remeasurement, such as obtaining control.

41. Paragraph 24 of IAS 28 specifies the accounting treatment to be applied to such transactions and states that 'If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and <u>does not remeasure</u> the retained interest.' (emphasis added)

42. Paragraph BC28 of IAS 28, in explaining the rationale for this decision states:

> 'During its redeliberation of ED 9, the Board reconsidered whether its decision in the second phase of the business combinations project to characterise loss of joint control or loss of significant influence as a significant economic event (ie in the same way that loss of control is characterised as a significant economic event) was appropriate. If it were, the Board thought that the entity should be required to

> recalibrate the accounting as required by IFRS 10. However, the Board concluded that, although significant, the events are fundamentally different. In the case of loss of control, the cessation of the parent-subsidiary relationship results in the derecognition of assets and liabilities because the composition of the group changes. If joint control or significant influence is lost the composition of the group is unaffected.'

43. Paragraph BC30 further goes on to state:

> 'In the case of loss of joint control when significant influence is maintained, the Board acknowledged that the investor-investee relationship changes and, consequently, so does the nature of the investment. However, in this instance, both investments (i.e. the joint venture and the associate) continue to be measured using the equity method. Considering that there is <u>neither a change in the group boundaries nor a change in the measurement requirements</u>, the Board concluded that losing joint control and retaining significant influence is not an event that warrants remeasurement of the retained interest at fair value.' (emphasis added).

44. On the basis of the conclusion reached in IAS 28, we think that a similar rationale should be applied to this transaction, because there has been neither a change in the group boundaries nor a change in the measurement requirements in respect of the entity's original interest.

45. We think that prohibiting remeasurement of the entity's original interest results in a less complex application of the accounting requirements for such transactions.

46. Accordingly, it is the staff's view that the transaction <u>should not result in a remeasurement</u> of the entity's original interest.

Analysing the requirements of IFRS 11

47. The submitter notes that paragraph BC45M of IFRS 11 cites the requirement in paragraph 42 of IFRS 3 to remeasure a previously held interest upon obtaining control of an investee and states that '…This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business'. This statement suggests that the reference in paragraph 21A of IFRS 11 to applying the business combinations accounting requirements '…to the extent of its share in accordance with paragraph 20…' requires the investor to remeasure its aggregate interest in the joint operation and that '…the principles on business combinations accounting in IFRS 3…' include the remeasurement requirements of paragraph 42 of IFRS 3.

48. In addition, proponents of this view note that the requirement of paragraph B33C of IFRS 11, which states that 'previously held interests in the joint operation are not remeasured if the joint operator retains joint control' could be interpreted to mean that previously held interests are remeasured when joint control is obtained (instead of being retained).

49. We agree with the submitter that the wording in the paragraphs described above, while not explicitly addressing the transaction, could be interpreted by some as requiring (or permitting) a remeasurement of the entity's original interest.

50. The above-referenced paragraphs (paragraphs 21A, B33C and BC45M of IFRS 11) were added to IFRS 11 as part of the amendments issued in May 2014 in order to address the accounting for acquisitions of interests in joint operations.

51. In paragraph BC45L, the IASB acknowledges that:

> 'the reference to "all of the principles on business combinations accounting in IFRS 3 and other IFRSs" is ambiguous for acquisitions of additional interests in joint operations that result in the joint operator retaining joint control of the joint operation. It might be understood as a reference to either:
>
> (a) paragraph 42 of IFRS 3 with the result of

remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or

(b) paragraph 23 of IFRS 10 with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.'

52. In order to address this, the IASB clarified that previously held interests in a joint operation are not remeasured if the joint operator retains joint control. However, the clarification was *limited to the circumstances in which joint control is retained by the entity.* We think that the amendments should not be read as implying that previously held interests should (or are permitted to) be remeasured when an entity obtains joint control.

Other considerations

53. Previously, the Interpretations Committee had received a similar request to address the accounting for previously held interests in a joint operation (that constitutes a business as defined in IFRS 3) when a joint operator acquires control of the joint operation.

54. The Interpretations Committee discussed this issue at its meeting in January 2012 and decided not to address it.[1]

55. The reason why the Interpretations Committee decided not to address this issue was that the constituent that raised the issue wanted it to be addressed as part of the project *Acquisition of an Interest in a Joint Operation*. The Interpretations Committee concluded that the issue was beyond the scope of that project (see

[1] http://www.ifrs.org/Updates/IFRIC-Updates/Documents/IFRICUpdateJan12.pdf

paragraph 20 of Staff Paper 5 presented at the January 2012 Interpretations Committee meeting[2]).

56. This issue was subsequently discussed by the Interpretations Committee at its meeting in September 2013. At that meeting, the Interpretations Committee decided to not address that issue as part of a separate project but to consider it together with other issues that were raised in relation to joint arrangements[3].

57. In a subsequent meeting in November 2013, this issue was not identified as one of the priority issues to be addressed with regard to the application of the requirements of IFRS 11[4].

Is the transaction widespread?

58. We note that a majority of the national standard-setters, regulators and respondents from the extractive industry have not identified the issue to be common in their respective jurisdictions/industries.

59. However, we note that respondents from some accounting networks have noted these transactions to be common and widespread and have also reported some prior experience with such transactions.

60. On the basis of this, we think that there are indications that these transactions are widespread and the divergent opinions could have a material effect on those affected.

Assessment against the Interpretations Committee's agenda criteria

61. We have assessed this issue against the agenda criteria of the current *Due Process Handbook*:

---

[2] http://www.ifrs.org/Meetings/Documents/051201AP5IFRS11Acquisitionofaninterestinajointoperation.pdf

[3] http://media.ifrs.org/2013/IFRIC/September/IFRIC-Update-September-2013.pdf

[4] http://media.ifrs.org/2013/IFRIC/November/IFRIC-Update-November-2013.pdf

Paragraph 5.16 states that the Interpretations Committee should address issues:	Agenda criteria satisfied?
that have widespread effect and have, or are expected to have, a material effect on those affected;	**Yes.** On the basis of our outreach, we think there are indications that the issue is widespread. The issue has a material effect on those affected.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**Yes.** We think that financial reporting would be improved through the elimination of diverse reporting methods.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**Yes.** We think that the issue could be interpreted within the confines of IFRS 11.
In addition:	
Can the Interpretations Committee address this issue in an efficient manner (paragraph 5.17)?	**Yes**. We think the issue can be addressed by the Interpretations Committee in an efficient manner.
The solution developed should be effective for a reasonable time period. (paragraph 5.21)	**Yes.** We are not aware of any current IASB projects that are likely to affect this issue.

62. We have also assessed the additional criteria for annual improvements as shown below:

Additional criteria for annual improvements	
In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12): • Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict.	**Yes.** We think that the guidance currently does not address the situation described by the submitter and we think that the wording in paragraphs 21A, B33C and BC45M of IFRS 11 could provide a technical basis for requiring (or permitting) remeasurement of an entity's original interest in the transaction. We do not think that this was an intended consequence of the recent amendments made to IFRS 11.
Not change an existing principle or propose a new principle	**Yes.** We think that the proposal is not changing an existing principle or proposing a new principle. Instead, we think that the proposal is providing missing guidance that is in line with the principles of IFRS 11, other relevant Standards (i.e. IAS 28, IFRS 10 and IFRS 3) and analogous transactions.
Not be so fundamental that the IASB will have to meet several times to conclude (6.14)	**Yes.** We think that the proposed amendment is not so fundamental that the IASB will have to meet several times to conclude.

Staff recommendation

63. On the basis of our analysis in this paper, we think that the transaction should not result in a remeasurement of the entity's original interest.

64. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper, we think that the issue described by the submitter is widespread and should be taken on to the agenda.

65. If the Interpretations Committee agrees with the staff's assessment that the issue is widespread and should be taken onto the agenda, we would like to ask the Interpretations Committee if it thinks the scope of the project should be expanded to include other transactions involving previously held interests in joint operations?

66. If the Interpretations Committee thinks the scope of the project should be expanded, we will perform further outreach and analysis and present our findings at a future meeting.

67. If the Interpretations Committee decides to limit the scope of the project to the transaction described by the submitter, we think that our proposed amendment meets the criteria for inclusion in the **Annual Improvements cycle for 2015-2017**.

68. We recommend including additional guidance in Appendix B of IFRS 11 to clarify that previously held interests in a joint operation should not be remeasured in the transaction.

Transition provisions

69. We propose that an entity should apply the amendments retrospectively. Earlier application should be permitted.

First time adopters

70. We think that a first-time adopter should apply the amendment to IFRS 11. In this respect we think that a clarifying amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* is not necessary.

Consequential amendments

71. We have reviewed the other Standards for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

Proposed amendment

72. The proposed amendment to the application guidance in Appendix B of IFRS 11 is shown in Appendix A of this agenda paper.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with our analysis in this paper and our conclusion that, in the fact pattern described by the submitter, previously held interests should not be remeasured?

2. Does the Interpretations Committee agree that the issue described by the submitter is widespread and should be taken onto the agenda?

3. Does the Interpretations Committee think the scope of the project should be expanded to include other transactions involving previously held interests in joint operations?

4. If the Interpretations Committee decides to limit the scope of the project to the transaction described by the submitter, does the Interpretations Committee agree with the staff's recommendation to add this issue to its agenda for annual improvements?

5. Does the Interpretations Committee agree with the staff's recommendation to provide additional guidance in Appendix B of IFRS 11 as shown in **Appendix A** of this paper?

Appendix A—Proposed amendment

Proposed Amendment to IFRS 11 Joint Arrangements

Paragraph B33C has been amended. New text is underlined and deleted text is struck through.

Accounting for acquisitions of interests in joint operations

B33C ~~A joint operator~~ An entity might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the entity obtains or retains joint control and there has been no change to the method of accounting for the previously held interests. ~~the joint operator retains joint control~~.

Effective date

C1AA *Annual Improvements to IFRSs [2015-2017] Cycle* issued in [date] amended paragraph B33C. An entity shall apply that amendment retrospectively in annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the amendment in an earlier period, it shall disclose that fact.

Appendix B—Submission

B1. We received the following request. We have deleted details that would identify the submitter of this request.

Suggested agenda item: Becoming a joint operator through acquisition of an additional interest in an existing joint operation

It has come to our attention that there are differing views on the appropriate accounting treatment under IFRS 11 Joint Arrangements for a previously held interest in a joint operation, when an investor's acquisition of an additional interest results in the investor becoming a joint operator (i.e. assuming joint control) of the investee. We are seeking clarification of the issue detailed below by the Committee.

Example

Entity A acquires a 10 per cent interest in an arrangement jointly controlled by two unrelated entities (Entity B and Entity C) that is classified as a joint operation and constitutes a business as defined in IFRS 3 *Business Combinations*. Entity A does not participate in the joint control and is an investor only, but does have rights to 10 per cent of the assets and obligations for the liabilities relating to the joint operation and, in accordance with IFRS 11.23, recognises a 10 per cent share of the revenue from the sale of output by the joint operation, assets held jointly and expenses and liabilities incurred jointly.

At a later date, Entity A acquires an additional 20 per cent interest in the joint operation at which point the arrangement is amended such that the three entities share joint control.

In accordance with IFRS 11.21A, Entity A applies the principles on business combinations to account for this transaction.

Issue

Does applying the principles of business combinations accounting to the acquisition of an additional interest in an existing joint operation include remeasurement of the investor's original (in the above example, 10 per cent) share of the assets and liabilities of the joint operation held by Entity A?

Alternative views

Paragraph BC45M of the Basis for Conclusions on IFRS 11 cites the requirement in IFRS 3.42 to remeasure a previously held interest upon obtaining control of an investee and states that “[t]his is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business.” This statement suggests that the reference in IFRS 11.21A to applying the business combinations accounting requirements “to the extent of its share in accordance with paragraph 20 [of IFRS 11]” requires the investor to remeasure its aggregate interest in the joint operation and that “the principles on business combinations accounting in IFRS 3” includes the requirements of paragraph 42 of that Standard.

In addition, we note that the requirement of IFRS 11.B33C that “previously held interests in the joint operation are not remeasured if the joint operator retains joint control” could be interpreted to mean by exception that previously held interests *are* remeasured when joint control is obtained (rather than retained).

However, we are aware of an alternative view that the reference in IFRS 11.21A to applying business combinations accounting “to the extent of its share in accordance with paragraph 20 [of IFRS 11]” refers to the interest being acquired in the subsequent transaction, rather than the aggregate interest. This is, in part, due to concerns over applying the principles of IFRS 3 more than once to the same share of assets and liabilities and partly due to the fact that in the circumstances described above whilst the *nature* of the investor’s previously held interest in the joint operation has changed (from passive investment to joint control), the *method of accounting* for that interest has not. As such, we note the IASB’s decision that a change between associate and joint venture status should not result in remeasurement of an investment accounted for using the equity method because, according to paragraph BC30 of the Basis for Conclusions on IAS 28 *Investments in Associates and Joint Ventures*, “there is neither a change in the group boundaries nor a change in the measurement requirements”.

In addition, IFRS 11.B33A(d) requires the recognition of goodwill at “the excess of the consideration transferred over the net of…assets acquired and the liabilities assumed.” As it could be argued that no consideration has been transferred in respect of the previous interest (as the 10 per cent of assets and liabilities has neither been disposed of nor derecognised), there is a view that recognition of additional goodwill in respect of this holding is not appropriate.

Reasons for the Committee to address the issue

Changes in an investor's interest in a joint operation are relatively common in, for example, the extractive industry and as such clarity on this issue would prevent the development of diversity in practice. We believe that clarity could be provided by means of a minor amendment to the wording of either IFRS 11.21A or IFRS 11.B33C.

In addition, the issue is not related to a Board project that is expected to be completed in the near future.

For these reasons, we believe that this issue meets the criteria for acceptance onto the Committee's agenda.