IFRS

STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**IFRS 11 *Joint Arrangements***		
Paper topic	Remeasurement of previously held interests		
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Background and purpose

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 Interpretations Committee discussed this issue in its meeting in May 2015. It understood that there are different views on whether or not the previously held interests in the assets and liabilities of the joint operation should be remeasured. It also noted that some respondents to the outreach highlighted other transactions involving previously held interests in which there were different views on whether such interests should be remeasured or not. The Interpretations Committee observed that it would be useful to analyse these other transactions simultaneously with its analysis of the fact pattern submitted.

3. At the meeting in July 2015, the Interpretations Committee discussed an analysis of other transactions involving changes of interests in a business (as defined by IFRS 3 *Business Combinations*) for which there is a lack of guidance, or where there is diversity of views, on determining whether or not previously held interests should be remeasured. A copy of the staff analysis can be found here. The analysis identified 14 such transactions. The analysis indicated that several of these transactions were either not widespread, not resulting in diversity in practice or were the subject of

another IASB project. On the basis of the analysis, the Interpretations Committee agreed that the scope of the project, initially, should include transactions involving:

(a) obtaining control of a joint operation, either from having joint control in, or being a party to, a joint operation prior to the transaction;

(b) loss of control resulting in the entity having joint control in, or being a party to, a joint operation subsequent to the transaction; and

(c) change of interests resulting in a party to a joint operation obtaining joint control in a joint operation.

4. The Interpretations Committee observed that it would be useful to also analyse similar transactions involving assets, or groups of assets and liabilities, that do not meet the definition of a business.

5. The Interpretations Committee asked the staff to prepare a paper that analyses the accounting for previously held interests for the transactions identified, taking into account existing principles that can be carried over to these transactions. It also expressed a preference that any guidance that may be developed as part of this work should be informed by the other IASB projects referred to, and should consider the implications on the accounting for other similar transactions.

6. At this meeting, we will discuss the following:

(a) analysis of existing guidance relating to the remeasurement of previously held interests. Through this analysis we have identified some general principles that we think can be applied to the analysis of the specific transactions identified as being within the scope of the project.

(b) analysis of specific transactions identified by the Interpretations Committee.

7. On the basis of our analysis in this paper, we think that:

(a) the significance of the underlying economic event should be the primary factor in assessing whether or not previously held interests should be remeasured. A change in the basis of accounting may indicate that a significant economic event has occurred and can be used as a factor to assess whether or not there has been a significant economic event;

(b) the measurement model (ie a cost model or a fair value model) applicable to the recognition of the previously held/retained interests should be considered;

(c) the accounting for previously held interests should be separately analysed for transactions involving assets or groups of asset that meet the definition of a business versus those that do not; and

(d) the use of a cost accumulation model should be avoided where this can be justified because users have criticised its use as resulting in information that lacks consistency, understandability and usefulness.

We do not think the structure of the investment, and whether or not the investment is housed in a separate legal entity, should affect the analysis.

Structure of papers

8. This paper provides an overview and an analysis of the existing guidance related to the measurement of previously held/retained interests. Through this analysis, we have identified certain general principles that we think the Interpretations Committee can use in its analysis of the specific transactions identified as being within the scope of the project. We have also included in this paper a summary of our conclusions and recommendations for the specific transactions that have been analysed.

9. The specific transactions identified by the Interpretations Committee have been separately analysed as part of the following papers:

(a) Agenda Paper 05A—obtaining control of a joint operation, either from having joint control in, or being a party to, a joint operation prior to the transaction;

(b) Agenda Paper 05B—loss of control resulting in the entity having joint control in, or being a party to, a joint operation subsequent to the transaction; and

(c) Agenda Paper 05C—change of interests resulting in a party to a joint operation obtaining joint control in a joint operation.

10. In developing our analysis for these specific transactions, we have applied the general principles identified as part of this paper.

Analysis of existing guidance and identification of general principles

11. Appendix A (reproduced from Agenda Paper 6 of the Interpretation Committee's meetings in July 2015) lists transactions involving changes of interest in a business (as defined in IFRS 3). It identifies transactions involving previously held interests for which there is sufficient guidance versus those for which there appears to be either a lack of guidance and/or diversity of views in determining whether or not the previously held interests should be remeasured.

12. For ease of reference, all transactions have been identified by a transaction reference identifier (TR#A-TR#Y). We have highlighted in red the transactions for which the guidance requires a remeasurement of previously held interests. The transactions highlighted in green represent those for which the guidance specifies that previously held interests should not be remeasured.

13. We note that remeasurement of previously held interests is required in the following instances:

    (a) acquisition of control over a business in situations in which the investment was previously accounted for as a financial asset or an equity-accounted investee (TR#U and TR#V);

    (b) loss of control over a business in situations in which the remaining interest is subsequently accounted for as a financial asset or an equity-accounted investee (TR#E and TR#J); and

    (c) change of interests resulting in the remaining interest being subsequently accounted for as a financial asset (TR#B, C, D and E).

14. Transactions for which remeasurement is not required include the following:

    (a) change in interests resulting in a parent retaining control over a subsidiary (TR#Y);

(b) change in interests in a joint operation resulting in a joint operator retaining joint control (TR#M); and

(c) change in interests resulting in the equity method of accounting being applied both before and after the transaction (TR#G).

15. In the following paragraphs we will first examine the IASB's rationale in reaching the decisions for some of the individual transactions noted above and we will then identify general principles that can be applied by the Interpretations Committee in developing its analysis on other transactions.

Obtaining control over a business (TR#U and TR#V)

16. In the case of transactions involving obtaining control over a business (TR#U and TR#V), paragraphs BC384 and following of IFRS 3 explain that the IASB 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 (see paragraph BC384 of IFRS 3); and

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

17. Paragraph BC384 of IFRS 3 further explains that there is a significant change in the nature of and the 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 the underlying assets, liabilities and results of the operations of the acquiree in its financial statements; 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.

18. Paragraph BC386 of IFRS 3, in conjunction with paragraphs BC198-BC202 of IFRS 3, explains that the IASB rejected the view expressed by some constituents that the carrying amount of any pre-acquisition investment should be retained in the initial accounting for the cost of the business acquired. This because the IASB concluded that cost-accumulation practices led to many of the inconsistencies and deficiencies in the financial reporting that is required by SFAS 141 *Business Combinations* and, to a lesser extent, by IFRS 3 (issued 2004).

19. One of the inconsistencies and deficiencies in financial reporting resulting from cost-accumulation practices related to the benchmark treatment in IAS 22 *Business Combinations* and the provisions of SFAS 141 for step acquisitions (see paragraph BC199 of IFRS 3). For a step acquisition, that process involved accumulating the costs or carrying amounts or earlier purchases of interests in an entity, which may have occurred years or decades ago. Those amounts were added to the current costs to purchase incremental interests in the acquiree on the acquisition date. The accumulated amounts of those purchases were then allocated to the assets acquired and liabilities assumed. Allocating the accumulated amounts generally resulted in recognising the identifiable assets and liabilities of the acquiree at a mixture of current exchange prices and carry-forward book values for each earlier purchase rather than at their acquisition-date fair values.

20. Paragraph BC199 of IFRS 3 highlights that users of financial statements have long criticised those practices as resulting in information that lacks consistency, understandability and usefulness.

21. In assessing the arguments, the IASB concluded that no useful purpose is served by reporting the assets or liabilities of a newly acquired business using a mixture of their fair values at the date acquired and the acquirer's historical costs or carrying amounts (paragraph BC200 of IFRS 3).

22. While the requirement in paragraph 42 of IFRS 3 makes particular reference to the remeasurement of previously held 'equity interests', we note that the IASB's discussions and rationale do not make particular reference to the structure of the business and whether or not the business must be housed in a separate legal entity in order for the requirements of paragraph 42 to be applicable.

Losing control of a subsidiary (TR#E and TR#J)

23. Paragraph BCZ182 of IFRS 10 *Consolidated Financial Statements* discusses the IASB's rationale for requiring remeasurement in the case of loss of control over a subsidiary. In particular, the IASB noted that *loss of control was a significant economic event*. The parent-subsidiary relationship ceases to exist and an investor-investee relationship, which is significantly different from the former parent-subsidiary relationship, begins.

24. However, the IASB recently discussed the accounting for sale or contribution of assets between an investor and its associate or joint venture. In response to an inconsistency between IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures*, the IASB noted in the amendment that full gain or loss recognition is required when an asset, or a group of assets, that meets the definition of a business are contributed to an associate or a joint venture and any retained interest is remeasured to fair value.

25. The IASB also noted in the amendment that when the asset, or group of assets, does not meet the definition of a business, only partial gain or loss recognition is permitted (to the extent of the unrelated investors' interests). Consequently, the amendment to IFRS specifies that when an investment is retained in the former subsidiary (either an associate or a joint venture) that is not a business, the retained interest is still remeasured to fair value; however, the part of the gain or loss resulting from the remeasurement that does not relate to the unrelated investors' interests should be

eliminated against the carrying amount of the retained investment. Where the retained interest is a financial asset, the retained interest would be measured at fair value and the gain or loss resulting from the remeasurement would be recognised in full in profit or loss.

26. This results in the retained investment being measured at a different amount post-transaction depending on whether or not the transaction involved a business, and on the nature of the retained investment. For example, in cases in which the transaction involved a business, or the retained interest was classified as a financial asset, the retained interest is measured at fair value. In cases in which the transaction did not involve a business and the retained interest is an equity-method accounted for investee, the carrying amount will be different as a result of the partial elimination of gains as described in paragraph 25.

27. Subsequent to this amendment, the IASB intended to propose a further narrow-scope amendment to clarify some matters linked to this amendment. However, the IASB decided that those issues should be addressed as part of its research project on the equity method of accounting. Accordingly, the IASB has decided to postpone these amendments until this research is completed.

28. Consequently, we will be cautious in drawing analogies to this guidance, because it could be subject to change in the near future.

Retaining control over a subsidiary or retaining joint control in a joint operation (TR#Y and TR#M)

29. The IASB decided that after control of an entity is obtained, changes in a parent’s ownership interests that do not result in a loss of control are accounted for as equity transactions. One of the implications of this decision is that no change in the carrying amounts of the subsidiary’s assets or liabilities should be recognised as a result of such transactions (see paragraph BCZ168 of IFRS 10).

30. The IASB believed that recognising a change in any of the assets of the business, including goodwill, was inconsistent with the IASB’s decision in IFRS 3 that obtaining control in a business combination is a significant economic event. That event causes the initial recognition and measurement of all the assets acquired and

liabilities assumed in a business combination. Subsequent transactions with owners should not affect the measurement of those assets and liabilities (see paragraph BCZ173 of IFRS 10). Paragraph BCZ174 of IFRS 10 further states that (emphasis added):

> … generally, <u>the wealth-generating ability of those assets is unaffected</u> by the acquisition of non-controlling interests. That is to say, the parent is not investing in more or new assets. It is acquiring more rights to the income from the assets it already controls.

31. In the case of a transaction in which an entity retains joint control in a joint operation (TR#M), the IASB states, in paragraph BC45M of IFRS 11 *Joint Arrangements,* that:

> Paragraph 23 of IFRS 10 addresses the accounting for the acquisition of an additional interest in a business that is already controlled by the acquirer. This is the analogous transaction to the acquisition of an interest in a business that is already jointly controlled by the acquirer and will continue to be jointly controlled by it.

Change in interests resulting in the application of the equity method of accounting before and after the transaction (TR#G)

32. As part of its redeliberations on ED 9 *Joint Arrangements*, the IASB specifically removed all descriptions that characterise the loss of joint control or significant influence as a significant economic event. The IASB's rationale for the decision is explained in paragraphs BC28–BC31 of IAS 28. Paragraph BC28 of IAS 28 states:

> '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.'

33. Paragraph BC30 of IAS 28 notes:

> '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 (ie the joint venture and the associate) continue to be measured using the equity method. Considering that there is neither a change in the group boundaries nor a change in the measurement requirements, 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.'

34. If the loss of joint control or significant influence results in the retained investment being classified as a financial asset, paragraph BC29 of IAS 28 states:

> 'The Board also noted that retaining the characterisation of significant economic event in the case of loss of joint control or significant influence when the retained interest is a financial asset is unnecessary. IFRS 9 already requires that in such cases the retained interest (ie a financial asset) must be measured at fair value.'

Identification of general principles

Significant economic event

35. We conclude, on the basis of a review of the literature, that one of the key principles in determining the appropriate accounting for previously held interests is whether or not the transaction represents a *significant economic event*.

36. There are differing levels of involvement or influence an entity may have with an investment. These can range between the following:

    (a) no/passive influence;

    (b) significant influence;

    (c) joint control; or

    (d) control.

37. From a review of the existing guidance, we conclude that:

   (a) gain or loss of control are significant economic events;

   (b) a change in status between significant influence and joint control does not represent a significant economic event;

   (c) transactions that do not result in a change in the degree of involvement or influence do not represent significant economic events; and

   (d) a significant economic event triggers the requirement to remeasure any previously held/ retained interests.

38. The IASB's rationale for requiring remeasurement when control is obtained over a business or when control over a subsidiary is lost indicates that the IASB characterises gain or loss of control as a significant economic event. As discussed previously, one of the key elements considered by the IASB in reaching these conclusions is the change in the nature of the investment and the right to direct how the acquiree and its management use the assets in its operations.

39. At the other end of the spectrum, remeasurement is also required when an entity changes its interests in such a way that the retained interest is accounted for as a financial asset (ie where the investor has no/passive influence). This is driven by the requirements of IFRS 9, which requires a financial asset or financial liability to be measured at fair value on initial recognition. Paragraph 5.1.1 of IFRS 9 states (emphasis added):

> 'Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability *at its fair value* plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.'

40. The IASB did not clarify whether or not loss of joint control or significant influence that results in an investor retaining an investment over which it has no/passive influence represents a significant economic event. Paragraph BC29 of IAS 28 states (emphasis added):

> 'The Board also noted that retaining the characterisation of significant economic event in the case of loss of joint control or significant influence when the retained interest is a financial asset *is unnecessary*. IFRS 9 already requires that in such cases the retained interest (ie a financial asset) must be measured at fair value.'

41. We note that the Interpretations Committee discussed in July 2010 a request to address the accounting for an investment in an associate in situations in which the investment was purchased in stages and was classified as an available-for-sale financial asset until it became an associate. The Interpretations Committee acknowledged that there was diversity in practice in accounting for associates purchased in stages and recommended that the issue should be referred to the IASB for consideration.

42. As noted in paragraph 33, the IASB has concluded that a transaction that results in an entity losing joint control but retaining significant influence over an investment or vice versa is *not a significant economic event.* As a result, previously held interests are not remeasured.

43. On the basis of the rationale of the IASB in not requiring remeasurement of previously held interests for TR#Y and TR#M (ie transactions where an entity changes its interests but retains control or joint control before and after the transaction respectively) as discussed in paragraphs 29-31, we conclude that these do not represent significant economic events. Because these transactions do not represent significant economic events, remeasurement of previously held interests is not required.

Basis of accounting

44. A factor that has been mentioned by the IASB in some discussions on remeasurement of previously held interests relates to the *basis of accounting*. Paragraph BC 30 of IAS 28 notes (emphasis added):

> '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 (ie the joint venture and the associate) continue to be measured using the equity method. Considering that there is neither a change in the group boundaries nor a change in the measurement requirements, 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.'

45. The basis of accounting has also been mentioned in paragraph BC384 of IFRS 3 as one of the factors in the IASB reaching its conclusion on requiring the remeasurement of previously held interests in the acquisition of control over a business. The paragraph notes 'the acquirer ceases it's accounting for an investment asset and begins reporting in its financial statements the underlying assets, liabilities and results of operations of the acquiree'.

46. Paragraph BC384 of IFRS 3 also notes 'The boards concluded that a change from holding a non-controlling investment in an entity to obtaining control of that entity is a significant change in the nature of and economic circumstances surrounding that investment. That change warrants a change in the classification and measurement of that investment.'

47. Consequently, we think that a change in the basis of accounting reflects a change in the economic circumstances of an investment, which would indicate that there has been a significant economic event. We think that the basis of accounting is a secondary factor that can be considered in assessing whether or not there has been a significant economic event.

Applicable measurement model

48. A relevant consideration in performing the analysis is the measurement model that is applicable to the acquired/retained interests. IFRS 3 provides guidance on business combinations and uses a fair value-based measurement model to account for the acquisition of a business. Similarly, IFRS 9 requires a financial asset or financial liability (except for certain trade receivables) to be measured at fair value on initial recognition. On the other hand, several other Standards such as IAS 2 *Inventories*,

IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 28 use a cost-based measure for initial measurement.

49. The measurement model has an influence on the analysis of whether or not previously held interests should be remeasured. For example, where a transaction results in the retained investment being classified as a financial asset, the retained interest is generally remeasured to fair value, following the measurement model in IFRS 9.

50. Similarly, where a transaction results in a business combination, the previously held interests are remeasured to fair value, which is consistent with the fair value measurement model in IFRS 3. On the other hand, a change in interests that results in the equity method of accounting being applied before and after the transaction does not result in remeasurement of previously held interests, which is consistent with the cost-based measurement model in IAS 28.

51. We will take into account the applicable measurement model (ie cost-based model or a fair value model) when developing our analysis on the specific transactions within the scope of the project.

Structure of the investment

52. Some interested parties have noted the fact that the remeasurement guidance in IFRS 3 is applicable to previously held ‘equity interests’. Appendix A to IFRS 3 notes that ‘equity interests’ is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities. The interested parties question whether the guidance would be applicable in instances in which there is no separate legal entity in place. The interested parties also note that the guidance on loss of control in IFRS 10 addresses the loss of control in a subsidiary, which is defined as an entity that is controlled by another entity, and they question whether this guidance would be applicable in instances in which there is no separate legal entity.

53. We note that the term ‘entity’ is not defined within IFRS and the definition of ‘equity interests’ in IFRS 3 does not specifically require the existence of a separate legal entity. Our review of the IASB’s rationale and discussions indicate that the focus was not on the existence of a legal entity or a particular investment structure but instead

was primarily based on whether or not the transactions represented a significant economic event.

54. In addition, when the IASB developed its recent guidance on the acquisition of interests in a joint operation, it noted in paragraph BC45M of IFRS 11 that:

(a) the acquisition of additional interests in a business that is already controlled by the acquirer is analogous to the acquisition of interests in a business that is already jointly controlled by, and will continue to be jointly controlled by, the acquirer; and

(b) the acquisition of control over a business by an acquirer is analogous to an acquirer obtaining joint control over a business.

The IASB thought there were grounds for developing an analogy to this guidance and did not distinguish between joint operations that are structured through a separate legal entity and those that are not.

55. Accordingly, we do not think the structure of the investment, and whether or not the investment is housed in a separate legal entity or not, should affect the analysis and thereby result in different accounting treatments for previously held interests.

Transactions involving a business and transactions not involving a business

56. The existing guidance on the remeasurement of previously held interests is sometimes applicable to all transactions and sometimes only to transactions in which the group of assets and liabilities subject to the transaction constitutes a 'business' as defined in IFRS 3.

57. For example, the guidance on the following transactions is applicable regardless of whether or not the definition of a business is met:

(a) change of interests resulting in the remaining interest being subsequently accounted for as a financial asset (TR#B, C, D and E);

(b) change in interests resulting in the equity method of accounting being applied both before and after the transaction (TR#G); and

(c) change in interests resulting in a parent retaining control over a subsidiary (TR#Y).

58. On the other hand, the guidance on the acquisition of control over a business (TR#U and TR#V) is limited to transactions involving a business. IFRS 3 excludes from its scope transactions involving acquisitions of an asset, or group of assets, that does not constitute a business. Paragraph BC20 of IFRS 3 notes that:

> The boards considered whether to expand the scope of the revised standards to all acquisitions of groups of assets. They noted that doing so would avoid the need to distinguish between those groups that are businesses and those that are not. However, both boards noted that broadening the scope of the revised standards beyond acquisitions of businesses would require further research and deliberation of additional issues and delay the implementation of the revised standards' improvements to practice. The boards therefore did not extend the scope of the revised standards to acquisitions of all asset groups.

59. Similarly, the guidance on changes in interests in a joint operation resulting in a joint operator retaining joint control (TR#M) is restricted to transactions involving groups of assets and liabilities that meet the definition of a business. The IASB's rationale for limiting the guidance to transactions involving a business is described in paragraph BC45I of IFRS 11, which states that:

> … the IASB noted that the fact patterns raised with the Interpretations Committee were limited to circumstances involving a business, as defined in IFRS 3. The IASB noted that IFRS already provides guidance for the acquisition of an interest in an asset or a group of assets that is not a business, as defined in IFRS 3. Consequently, the amendments apply only when an entity acquires an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, either on formation of that joint operation or when acquiring an interest in an existing joint operation.

60. For transactions involving a loss of control (TR#E and TR#J), paragraph 25 of IFRS 10 requires previously held interests to be remeasured. Paragraph B98(b)(iii) of IFRS 10 requires any investment retained in the former subsidiary to be recognised at

its fair value at the date on which it lost control. This requirement is applicable regardless of whether or not the transaction involves a business.

61. However, as discussed previously, the IASB recently made some amendments to IFRS 10 and IAS 28 as a result of the carrying value of the retained investment post-transaction being different, depending on whether or not the asset, or group of assets, meets the definition of a business and the classification of the retained interest (ie as a financial asset or equity-method-accounted-for investee). Subsequently, the IASB has proposed that this amendment should be postponed until its research project on the equity method of accounting has been completed.

62. In our review of the existing guidance, we have not been able to identify a particular theme or common thread that would indicate when specific guidance should be applied to all transactions and when it should be limited to transactions involving a business. We think that this will have to be considered separately for each transaction that is analysed by the Interpretations Committee.

Use of the cost accumulation model

63. The IASB has specifically acknowledged the inconsistencies and deficiencies of the *cost accumulation model* when developing the remeasurement guidance in IFRS 3.

64. Paragraph BC199 of IFRS 3 highlights that users of financial statements have long criticised cost accumulation practices, because they find that they result in information that lacks consistency, understandability and usefulness.

65. In assessing the arguments, the Boards concluded that no useful purpose is served by reporting the assets or liabilities of a newly acquired business using a mixture of their fair values at the date acquired and the acquirer’s historical costs or carrying amounts (see paragraph BC200 of IFRS 3).

66. In other words, the IASB rejected cost accumulation approaches in developing IFRS 3 and thereby had in mind the accounting consequences of cost accumulation practices for step acquisitions.

67. Accordingly, we think that this is also a relevant consideration that should be applied when developing guidance for other transactions.

Conclusion

68. On the basis of our analysis in this paper, we think:

(a) the significance of the underlying economic event should be the primary factor in assessing whether or not previously held interests should be remeasured. A change in the basis of accounting may indicate that a significant economic event has occurred and can be used as a factor to assess whether or not there has been a significant economic event;

(b) the measurement model (ie a cost model or a fair value model) applicable to the recognition of the previously held/retained interests should be considered;

(c) the accounting for previously held interests should be separately analysed for transactions involving assets or groups of asset that meet the definition of a business versus those that do not; and

(d) the use of a cost accumulation model should be avoided where this can be justified because users have criticised its use as resulting in information that lacks consistency, understandability and usefulness.

We do not think the structure of the investment, and whether or not the investment is housed in a separate legal entity, should affect the analysis.

69. We have applied these principles in analysing the transactions identified by the Interpretations Committee as being within the scope of the project. Our analysis is presented in Agenda Papers 05A, 05B and 05C, which are appended to this paper.

Question for the Interpretations Committee
Does the Interpretations Committee agree with, and have any comments on, the general principles identified?

Summary of conclusions and recommendations on specific transactions

70. On the basis of our analysis of the specific transactions as discussed in Agenda Papers 05A, 05B and 05C, we note the following:

(a) *obtaining control of a joint operation, either from having joint control in, or being a party to, a joint operation prior to the transaction:*

We think that for transactions in which the joint operation meets the definition of a business, the previously held interests should be remeasured. We think the transaction results in a significant economic event that warrants a remeasurement of previously held interests. We recommend an amendment to IFRS 3 in the form of an annual improvement to reflect this conclusion.

Where such transactions do not involve a business, we are not aware of diversity in practice and based on past experience and outreach, we do not think that such transactions are common. Consequently, we do not recommend the development of guidance for such transactions at this stage.

(b) *loss of control resulting in the entity having joint control in, or being a party to, a joint operation subsequent to the transaction:*

We think that for transactions in which the joint operation meets the definition of a business, the retained interests should be remeasured. We think the transaction results in a significant economic event that warrants a remeasurement of previously held interests. On the basis of recent discussions and decisions made by the IASB in connection with the accounting for sale or contribution of assets to a joint venture or an associate, which has similarities with this transaction, we think that the Interpretations Committee should postpone further discussion on this transaction until the research project on the equity method of accounting is completed.

We do not think that similar transactions that do not involve a business are common in practice, based on our past experience and previous outreach. Consequently, we do not recommend the development of guidance for such transactions at this stage.

(c) *change of interests resulting in a party to a joint operation obtaining joint control in a joint operation:*

We think that for transactions in which the joint operation meets the definition of a business, the previously held interests should not be remeasured. We think the transaction does not result in a significant economic event. We recommend an amendment to IFRS 11 in the form of an annual improvement to reflect this conclusion.

Where such transactions do not involve a business, we are not aware of diversity in practice and based on past experience and outreach, we do not think that such transactions are common. Consequently, we do not recommend the development of guidance for such transactions at this stage.

Appendix A—Matrix of transactions involving changes of interest in a business and guidance on the remeasurement of previously held/ retained interests

To: *From:*		**Financial asset**	**Equity-accounted investee (significant influence/joint venture)**	**Joint operations**		**Control**
				Joint control—joint operation	**Party to a joint operation***	
Financial asset		Follow guidance in IFRS 9 (note 1) (TR#A)	Guidance not clear (TR#F)	Guidance not clear (TR#K)	Guidance not clear (TR#P)	**Remeasure—IFRS 3.42** (TR#U)**
Equity-accounted investee (significant influence/joint venture)		**Remeasure—IAS 28.22 (b) and IFRS 9.5.1.1** (TR#B)**	**Do not remeasure—IAS 28.24** (TR#G)**	Guidance not clear (TR#L)	Guidance not clear (TR#Q)	**Remeasure—IFRS 3.42** (TR#V)**
Joint Operations	**Joint control—joint operation**	**Remeasure—IFRS 9.5.1.1** (TR#C)**	Guidance not clear (TR #H)	**Do not remeasure—IFRS 11.B33C (TR#M)**	Guidance not clear (TR#R)	Guidance not clear (TR#W)
	Party to a joint operation*	**Remeasure—IFRS 9.5.1.1** (TR#D)**	Guidance not clear (TR#I)	Guidance not clear—original submission (TR#N)	Guidance not clear (TR#S)	Guidance not clear (TR#X)
Control		**Remeasure—IFRS 10.25(b) and IFRS 9.5.1.1** (TR#E)**	**Remeasure—IFRS 10.25(b) (TR#J)**	Guidance not clear (TR#O)	Guidance not clear (TR#T)	**Do not remeasure—IFRS 10.23** (TR#Y)**

** Party to a joint operation refers to a party that participates in, but does not have joint control of, a joint operation. The party has rights to the assets and obligations for the liabilities relating to the joint operation. The party therefore accounts for its interests in the arrangement in accordance with the paragraphs 20–22 of IFRS 11.*

*** Guidance referenced in the matrix has been reproduced below for ease of reference.*

Transactions in red represent transactions for which guidance specifies that previously held interests should be remeasured. Transactions highlighted in green represent transactions for which the guidance specifies that previously held interests should not be remeasured.

Notes to the Matrix

Note 1: From an investment in a financial asset to an investment in a financial asset

A1. IFRS 9 *Financial Instruments* provides guidance on the initial and subsequent measurement of financial assets. The appropriate measurement of previously held interests would depend on the nature (for example, debt vs equity) and classification (for example, fair value through profit or loss, amortised cost, etc) of the financial asset.

Guidance referenced in matrix

A2. Paragraph 42 of IFRS 3 *Business Combinations* states (emphasis added):

> In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its <u>acquisition-date fair value</u> and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate …

A3. Paragraph 5.1.1 of IFRS 9 states (emphasis added):

> Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall <u>measure a financial asset</u> or financial liability <u>at its fair value</u> plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

A4. Paragraph 23 of IFRS 10 *Consolidated Financial Statements* states:

> Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (ie transactions with owners in their capacity as owners).

A5. Paragraph 25 of IFRS 10 states (emphasis added):

> If a parent loses control of a subsidiary, the parent...
>
> (b) recognises any <u>investment retained in the former subsidiary at its fair value</u> when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

A6. Paragraph BC33C of IFRS 11 *Joint Arrangements* states (emphasis added):

> A joint operator 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 <u>not remeasured</u> if the joint operator retains joint control.

A7. Paragraph 22 of IAS 28 *Investments in Associates and Joint Ventures* states (emphasis added):

> An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows: …
>
> (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall <u>measure the retained interest at fair value</u>. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9.

A8. Paragraph 24 of IAS 28 states (emphasis added):

> 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'.