IFRS

STAFF PAPER

July 2016

IFRS® Interpretations Committee Meeting

Project	**IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements***		
Paper topic	Accounting for loss of control transactions		
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Introduction

1. The Interpretations Committee discussed whether an entity should remeasure its retained interest in the assets and liabilities of a joint operation when the entity loses control of an asset or group of assets (loss of control transaction). In the transaction discussed, the entity either retains joint control of a joint operation or is a party to a joint operation (with rights to assets and obligations for liabilities) after the transaction. The asset, or group of assets, over which the entity loses control may or may not constitute a business.

2. The Interpretations Committee noted that paragraphs B34–B35 of IFRS 11 *Joint Arrangements* specify that an entity recognises gains or losses on the sale or contribution of assets to a joint operation only to the extent of the other parties' interests in the joint operation. The requirements in these paragraphs could be viewed as conflicting with the requirements in IFRS 10 *Consolidated Financial Statements*, which specify that an entity remeasures any retained interest when it loses control of a subsidiary.

3. The Interpretations Committee observed that the Board issued amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* in September 2014 to address the accounting for the sale or contribution of assets to an associate or a joint venture. Those amendments address a similar conflict that exists between the

requirements in IFRS 10 and IAS 28. After issuing the amendments, the Board considered a number of other related issues. The Board decided to address these issues as part of its research project on equity accounting, and also decided to defer the effective date of the amendments to IFRS 10 and IAS 28.

4. Because of the similarity between the loss of control transaction and a sale or contribution of assets to an associate or a joint venture, the Interpretations Committee concluded that the accounting for both transactions should be considered concurrently by the Board. Consequently, the Interpretations Committee tentatively decided not to add this issue to its agenda but, instead, to recommend to the Board that the issue is considered at the same time that the Board further considers the accounting for the sale or contribution of assets to an associate or a joint venture.

5. The purpose of this paper is to provide the Interpretations Committee with an analysis of the comments received on the tentative agenda decision and to ask the Interpretations Committee if it agrees with the staff recommendation to finalise the agenda decision.

Comment letter summary

6. We received four comment letters, which have been reproduced in Appendix B to this paper.

7. Two respondents (Deloitte and Petrobras) agree with the Interpretations Committee's decision not to add this issue to its agenda for the reasons outlined in the tentative agenda decision.

8. The other two respondents (The Accounting Standards Committee of Germany (the ASCG) and the Accounting Standards Board for Canada (the AcSB)) disagree with the Interpretations Committee's decision not to add this issue to its agenda.

9. The ASCG does not think that a loss of control transaction is similar to a sale or contribution of assets to an associate or a joint venture. The respondent says that a sale or contribution of assets to an associate or a joint venture is an intra-group downstream transaction that involves 'crucial questions depending on the consideration received' (ie whether the consideration received is an equity interest,

monetary assets or non-monetary assets). However, that respondent says that IFRS 10 provides 'exhaustive guidance' for a loss of control transaction which is an 'external transaction', and the accounting for a loss of control transaction is not dependent on the equity method of accounting.

10. Similarly, the AcSB says that, because the equity method of accounting does not apply to the accounting for a loss of control transaction, the outcome of the equity method of accounting research project is not relevant. The respondent is concerned about the uncertainty as to when, or if, the research project on equity accounting will be added to the Board's agenda and thinks that 'it will be some time before the project, should it move forward, can even begin to address loss of control transactions'.

11. Both respondents (the ASCG and the AcSB) note that there is diversity in practice and recommend that the Interpretations Committee address the accounting for a loss of control transaction on a timely basis, independently from the Board's decisions on the accounting for a sale or contribution of assets to an associate or a joint venture. The ASCG requests that, if the Interpretations Committee defers this issue, it at least states whether, for the time being, either of the accounting methods described hereafter is acceptable, or one of the methods is superior to the other. The two accounting methods in question are to remeasure the retained interest at fair value or not to remeasure the retained interest.

12. In addition, although Petrobras agrees with the Interpretations Committee's decision not to add this issue to its agenda, it recommends that the accounting for the loss of control transaction and other analogous issues (such as accounting for a sale or contribution of assets to an associate or a joint venture) be addressed concurrently with the findings and next steps on the Post-implementation Review of IFRS 3 *Business Combinations*. This is because it thinks that there are some interrelated areas, such as challenges in applying the definition of a business.

13. We have analysed the concerns raised by respondents in the following section.

Staff analysis

14. We continue to think that similar issues arise in considering the loss of control transaction to those that arise in considering a sale or contribution of assets to an associate or a joint venture. We agree with the Interpretations Committee's tentative conclusion that the accounting for the two transactions be considered concurrently by the Board.

15. We agree that equity accounting is not applicable to a loss of control transaction. Nonetheless, as outlined in Agenda Paper 3 of the Interpretations Committee's meeting in March 2016, we think:

    (a) the conflict that exists between the requirements in IFRS 10 and IFRS 11 *Joint Arrangements* with respect to the loss of control transaction is similar to the conflict that exists between IFRS 10 and IAS 28. After issuing amendments to address the conflict between IFRS 10 and IAS 28, the Board considered a number of other related issues. The Board decided that these issues should be addressed as part of its research project on equity accounting and also decided to defer the effective date of the amendments to IFRS 10 and IAS 28.

    (b) if the conflict between IFRS 10 and IFRS 11 were to be addressed, it would require amendments to existing IFRS Standards. We think it would be more efficient to consider the accounting for the loss of control transaction at the same time as further considering the accounting for the sale or contribution of assets to an associate or a joint venture. This is because of the similarity between the transactions being considered.

    (c) any decision reached by the Interpretations Committee with respect to a loss of control transaction may need to be revisited within a relatively short time period if the Board reaches a different conclusion regarding the accounting for the sale or contribution of assets to an associate or a joint venture.

    (d) although we acknowledge, on the basis of our outreach, that this transaction is widespread and could result in diversity in practice, we do not think that the need for clarity on this transaction is more urgent than the need for clarity on accounting for the sale or contribution of assets to an associate or a joint venture. On the basis of prior experience, we would expect that loss of control transactions are *less widespread* than the sale or contribution of assets to an associate or a joint venture.

(e) none of the Board members who expressed a view on the accounting for a loss of control transaction noted a strong preference for the Interpretations Committee to develop a solution before a decision is made on the amendments to address the sale or contribution of assets to an associate or a joint venture.

16. We do not agree that a sale or contribution of assets to an associate or a joint venture is an intra-group transaction whereas the loss of control transaction is an 'external transaction' for which IFRS 10 provides 'exhaustive guidance'. A group is defined in Appendix A of IFRS 10 as 'a parent and its subsidiaries'. Associates, joint ventures and joint operations are not part of a group. Accordingly, both a loss of control transaction (involving a joint operation) and a sale or contribution of assets to an associate or a joint venture are transactions with parties outside the group. The requirements in IFRS 10 on accounting for loss of control transactions apply equally to both transactions. In addition, as noted above, the conflict that exists between the requirements in IFRS 10 and IAS 28 is similar to the conflict that exists between IFRS 10 and IFRS 11.

17. We also think that it would be premature for the Interpretations Committee to state whether either of the accounting methods (ie to remeasure the retained interest to fair value or to not remeasure the retained interest) is acceptable or whether one of the methods is superior to the other.

18. Because the loss of control transaction is different from a business combination, we do not recommend considering the accounting for the loss of control transaction and other analogous issues (such as the accounting for a sale or contribution of assets to an associate or a joint venture) concurrently with the findings and next steps on the Post-implementation Review of IFRS 3 *Business Combinations.* However, the Board plans to undertake a post-implementation review of IFRS 10 and IFRS 11 in the near future. We will therefore pass the feedback on this tentative agenda decision to the project team responsible for the post-implementation review of those Standards.

Staff recommendation

19. On the basis of our analysis, we recommend confirming the tentative agenda decision as published in the IFRIC Update in March 2016 with no substantial changes. Appendix A of this paper sets out the draft wording for the final agenda decision.

Question for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Finalisation of agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through)

IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements*—Accounting for loss of control transactions

The Interpretations Committee discussed whether an entity should remeasure its retained interest in the assets and liabilities of a joint operation when the entity loses control of an asset or group of assets. In the transaction discussed, the entity either retains joint control of a joint operation or is a party to a joint operation (with rights to assets and obligations for liabilities) after the transaction. The asset, or group of assets, over which the entity loses control may or may not constitute a business.

The Interpretations Committee noted that paragraphs B34–B35 of IFRS 11 *Joint Arrangements* specify that an entity recognises gains or losses on the sale or contribution of assets to a joint operation only to the extent of the other parties' interests in the joint operation. The requirements in these paragraphs could be viewed as conflicting with the requirements in IFRS 10 *Consolidated Financial Statements*, which specify that an entity ~~should~~ remeasures any retained interest when it loses control of a subsidiary.

The Interpretations Committee observed that the Board had issued amendments to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures* in September 2014 to address the accounting for the sale or contribution of assets to an associate or a joint venture. Those amendments address a similar conflict that exists between the requirements in IFRS 10 and IAS 28. After issuing the amendments, the Board considered a number of other related issues. The Board decided to address these issues as part of its research project on equity accounting, and also decided to defer the effective date of the amendments to IFRS 10 and IAS 28.

Because of the similarity between the transaction being considered by the Interpretations Committee and a sale or contribution of assets to an associate or a joint venture, the Interpretations Committee concluded that the accounting for the two transactions should be considered concurrently by the Board. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda but, instead, to recommend to the Board that the issue is considered at the same time that the Board further considers the accounting for the sale or contribution of assets to an associate or a joint venture.

Appendix B—Copies of comment letters

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

6 June 2016

Dear Mr Upton

Tentative agenda decision – IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements*: Accounting for loss of control transactions

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative decision not to take onto the Committee's agenda the issue of whether an entity should remeasure its retained interest in the assets and liabilities of a joint operation when the entity loses control of an asset or group of assets.

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

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

Yours sincerely

Veronica Poole
Global IFRS Leader

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Chairman of the
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Berlin, 4 May 2016

Dear Wayne,

IFRS IC's tentative agenda decision in its March 2016 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decision, taken by the IFRS IC and as published in the March 2016 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

Appendix A – Comments on tentative agenda decision

IFRS 10/11 – Accounting for loss of control transactions

We do not support the IFRS IC's tentative agenda decision (TAD) for the following reasons:

We do not consider it useful if a deemed conflict between IFRS 11.B34-35 and IFRS 10.25 remains unresolved for the foreseeable future. Deferring this issue with the aim of considering other related issues concurrently would ignore the need for clarification, given that - as has been acknowledged by the IFRS IC - this deemed conflict affects transactions that are widespread and, hence, causes current diversity in practice. Acknowledging that this deemed conflict constitutes a factual accounting choice (between remeasuring and not remeasuring the retained interest), we would expect the IFRS IC to at least state whether, for the time being, either of the accounting methods is acceptable (hence, shall continue to be applied) or whether one of the methods is superior to the other.

In addition, and from a rather conceptual perspective, we are not convinced by the argument of a perceived "similarity" between (a) *loss of control transactions* considered recently and (b) *sale or contribution of assets* that is subject of the narrow-scope amendment of 2014 which had been deferred subsequently. As stated in our comment letter on ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*, we do not agree with such deferral, although we acknowledge that this amendment, if made effective, could be impacted by the outcome of the research project on the equity method. In contrast, we think that the recent question of whether retained interest shall be remeasured is not even an issue depending on the equity method. (a) and (b) are unlike, since (b) is an intra-group downstream transaction involving crucial questions depending on the consideration received (IAS 28.31), while (a) is an external transaction for which IFRS 10 provides exhaustive guidance; hence, IAS 28 does not provide relevant guidance that would be crucial to answering the question raised.

This said, we do not agree that the issue of *loss of control transactions* is best addressed by being considered concurrently with those other issues that the IASB intends to solve under its project on the equity method, but deserves an independent and timelier answer.

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

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June 6, 2016

By e-mail to ifric@ifrs.

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

Dear Sirs:

Re: Tentative agenda decision on IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements* – accounting for loss of control transactions

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretation Committee's tentative agenda decision regarding accounting for loss of control transactions when the entity either retains joint control of a joint operation or is a party to a joint operation after the transaction. This tentative agenda decision was published in the March 2016 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff.

We disagree with the Committee's decision not to add this item to its agenda because we are concerned that the Committee's outreach demonstrated that there is significant diversity in practice in accounting for loss of control transactions.

In addition, we note that for a loss of control transaction when the entity retains joint control in a joint operation, or is party to a joint operation, after the transaction, the equity method of accounting would not apply. Consequently, we think that the outcome of the equity method of accounting research project should not necessarily determine the accounting for loss of control transactions when the retained interest is a joint operation.

We also understand that there will be a significant number of issues to be addressed in the equity method of accounting project, which is still in its research phase. As a result, there is uncertainty as to when or if this project will be added to the IASB's agenda. Consequently, it will be some time until this project, should it move forward, can even begin to address loss of control transactions. We think that resolving the conflict between IFRS 11 and IFRS 10 should be done sooner in order to address the significant diversity in practice. Based on IFRIC's deliberations, we think that a solution to this issue can be achieved now and that there is not sufficient similarity to a sale or contribution of assets to an associate or a joint venture to warrant a delay.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at +1 416 204-3464 (e-mail rvillmann@cpacanada.ca), or, alternatively, Michelle Thomas, Principal, Accounting Standards (+1 416 204-2979 or email mthomas@cpacanada.ca).

Yours truly,

Rebecca Villmann, CPA, CA
CPA (Illinois)
Director, Accounting Standards

CONTRIB 0011/2016

Rio de Janeiro, June 3, 2016

Mr Wayne Upton
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Tentative agenda decision: Accounting for loss of control transactions

Reference:IFRS 11 Joint Arrangements and IFRS 10 Consolidated Financial Statements

Dear Sir,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision, IFRS 11 Joint Arrangements and IFRS 10 Consolidated Financial Statements—Accounting for loss of control transactions (IFRIC Update March 2016). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

As a result of a conflict between IFRS 10 and IFRS 11, accounting for retained interest in the assets and liabilities of a joint operation as a result of losing control of an asset or group of assets presents many challenges for preparers that may harm comparability between entities applying IFRS.

Although we agree with the Committee's tentative decision not to add this issue to its agenda, we believe the recommendation to the Board should be complemented with the findings and next steps of Post-implementation Review of IFRS 3 Business Combinations (PIR).

We believe accounting for retained interest in the assets and liabilities of a joint operation as a result of losing control of an asset or group of assets and other analogous issues such as the accounting for the sale or contribution of assets to an associate or a joint venture should be addressed considering the findings and next steps of the Post-implementation Review (PIR) of IFRS 3 Business Combinations due to some interrelated areas, such as:

· Challenges in applying the definition of a business, which encompasses how the accounting differences between business combinations and asset acquisitions could be reduced, and

· Usefulness of the accounting for loss of control, since some participants of the PIR have suggested investigating the related gains or losses should be recognized in Other Comprehensive Income (OCI).

We hope that our suggestions help the IASB in making the decisions necessary to develop and maintain principles-based standards of high quality. If you have any questions in relation to the content of this letter please do not hesitate to contact us (contabilidade@petrobras.com.br).

Paulo Jose Alves - SF38

With copy to: