

## STAFF PAPER

April 2017

## IASB Meeting

<b>Project</b>	<b>Amendments to IFRS 3 and IFRS 11: Previously Held Interest</b>		
<b>Paper topic</b>	Analysis of feedback on the proposed amendments		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Background and purpose**

1. This paper outlines the IFRS Interpretations Committee's (the Committee) recommendations on the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. Those amendments propose to clarify how an entity accounts for its previously held interest when it obtains:
  - (a) control of a business that is a joint operation (ie the proposed amendments to IFRS 3); and
  - (b) joint control of a business that is a joint operation (ie the proposed amendments to IFRS 11).

Those proposed amendments were included in the [Exposure Draft](#) *Definition of a Business and Accounting for Previously Held Interests* (the ED)<sup>1</sup>.

2. The comment period for the ED ended in October 2016. We received feedback from 80 respondents, of which 67 commented on the proposed amendments to IFRS 3 and IFRS 11. The comment letters can be accessed [here](#).
3. At its March 2017 meeting, the Committee discussed feedback on these proposed amendments. Other than the topic noted in paragraph 4 of this paper, the Committee

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<sup>1</sup> The ED proposed to clarify (a) the definition of a business and (b) how an entity accounts for its previously held interest in particular situations. This paper deals only with the comments on part (b) of these proposed amendments. The Board is separately redeliberating the comments on the proposed amendments to the definition of a business.

recommends that the Board finalise the amendments to IFRS 3 and IFRS 11, with no substantive changes.

4. At its March 2017 meeting, the Committee did not conclude on how an entity applies the remeasurement requirements in IFRS 3 to its previously held interest in a joint operation (clarification of ‘previously held interest’). For example, an entity might remeasure only assets and liabilities relating to the joint operation that it previously recognised or it might remeasure its overall previously held interest in the joint operation (ie including its interest in any unrecognised identifiable assets and liabilities and goodwill relating to the joint operation). The Committee recommended that the Board discuss this topic at a future meeting. Agenda Paper 12E presents our analysis and recommendation on this matter (clarification of ‘previously held interest’). This paper presents the Committee’s recommendation on all other matters.
5. The purpose of this paper is to ask the International Accounting Standards Board (the Board) if it agrees with the Committee’s recommendations.

## **Structure**

6. This paper is structured as follows:
  - (a) summary of the proposed amendments and feedback;
  - (b) the Committee’s discussion and recommendations;
  - (c) Appendix A—analysis of other matters for the proposed amendments to IFRS 3;
  - (d) Appendix B—analysis of other matters for the proposed amendments to IFRS 11; and
  - (e) Appendix C—analysis of matters for the proposed transition requirements.

## Summary of the proposed amendments and feedback

### ***The proposed amendments to IFRS 3—previously held interest when obtaining control of a business that is a joint operation***

7. The proposed amendments to IFRS 3 would clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value.

#### *Summary of feedback*

8. A large number of respondents agreed with the proposed amendments and a few disagreed. Some of the respondents who agreed expressed concerns about particular aspects of the proposals.
9. Those who agreed said that the proposed amendments would:
- (a) be consistent with the existing requirements in IFRS 3;
  - (b) result in consistent accounting across different forms of business combinations achieved in stages; and
  - (c) help reduce diversity in practice.
10. The main issues identified by some respondents are as follows:
- (a) scope and timing of the project (Common Issue)<sup>2</sup> (paragraphs 18–26); and
  - (b) clarification of ‘previously held interest’ (IFRS 3 Issue) (see Agenda Paper 12E for this meeting).

### ***The proposed amendments to IFRS 11—previously held interest when obtaining joint control of a business that is a joint operation***

11. The proposed amendments to IFRS 11 would clarify that when an investor obtains joint control of a business that is a joint operation, the entity does not remeasure its previously held interest in the joint operation.

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<sup>2</sup> This issue relates to both the proposed amendments to IFRS 3 and the proposed amendments to IFRS 11 and is labelled as ‘common issue’.

*Summary of feedback*

12. A large number of respondents agreed with the proposed amendments and a few disagreed. Some of the respondents who agreed expressed concerns about particular aspects of the proposals.
13. Those who agreed said that the proposed amendments would:
  - (a) improve the clarity of the previous amendments to IFRS 11;
  - (b) be consistent with the existing requirements in IAS 28 *Investments in Associates and Joint Ventures*; and
  - (c) help reduce diversity in practice.
14. The main issues identified by some respondents are:
  - (a) scope and timing of the project (Common Issue) (paragraphs 18–26); and
  - (b) significance of obtaining joint control of a joint operation (IFRS 11 Issue) (paragraphs 27–31).

***The proposed transition requirements***

15. The ED proposed that an entity apply the proposed amendments to IFRS 3 and IFRS 11 prospectively to transactions that occur on or after the effective date, with earlier application permitted.

*Summary of feedback*

16. Almost all respondents agreed with the proposed transition requirements. Respondents who agreed with prospective application said that retrospective application would be:
  - (a) difficult without hindsight; and
  - (b) costly and, thus, likely to outweigh the benefits.
17. Respondents did not identify any significant issues in respect of the proposed transition requirements. Appendix C to this paper outlines some concerns identified by respondents about transition, together with the staff analysis and recommendations that were presented to the Committee.

## Committee’s discussion and recommendations

### ***Common Issue—Scope and timing of the project***

#### *Overview of feedback*

18. A few respondents suggested that, in addition to the types of transactions included in the ED (ie obtaining control or joint control of a business that is a joint operation), the Board address how an entity accounts for changes of interest in other types of transactions (including those that do not involve a business).
19. Some respondents suggested that the Board undertake a project to comprehensively address how an entity accounts for transactions involving changes of interest. Some of those respondents said the Board should not finalise the proposed amendments until it undertakes this comprehensive review, while others said the Board should finalise these amendments and then undertake this comprehensive review.
20. In addition, a few respondents said the Board should not finalise the proposed amendments to IFRS 11 because it plans to undertake a post-implementation review (PIR) of IFRS 11 in the near future. These respondents said the proposed amendments to IFRS 11 would be better addressed as part of the PIR.

#### *Committee’s discussion and analysis*

21. When developing the scope of the ED, the Committee considered how an entity accounts for changes of interest in different types of transactions. At its July 2015 meeting, the Committee discussed 14 transactions for which it observed possible diversity.<sup>3</sup> The Committee concluded that several of these transactions were either not widespread, had not resulted in diversity in practice or were the subject of another Board project. On the basis of its analysis, the Committee decided the project should address transactions in which:
  - (a) a joint operator, or a party to a joint operation<sup>4</sup>, obtains control of the joint operation;

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<sup>3</sup> Agenda Paper 6 of the Committee’s meeting in July 2015 is available [here](#).

<sup>4</sup> Throughout this paper, a party to joint operation means a party that participates in, but does not have joint control of, a joint operation and has direct rights to the assets and obligations for the liabilities relating to the joint operation.

- (b) a party to a joint operation obtains joint control of the joint operation; and
  - (c) an entity loses control of a subsidiary, and has joint control in a joint operation (or is a party to a joint operation) after the transaction.
22. The ED addresses the transactions noted in paragraph 21(a) and (b) in situations in which the joint operation is a business. The Committee also discussed situations in which the joint operation is not a business. At its January 2016 meeting, the Committee published an agenda decision explaining how an entity applies existing requirements in IFRS Standards to its previously held interest in those situations. The agenda decision says:
- ...The Interpretations Committee noted that paragraph 2(b) of IFRS 3 explains the requirements for accounting for an asset acquisition in which the asset or group of assets do not meet the definition of a business. The Interpretations Committee noted that paragraph 2(b) of IFRS 3 specifies that a cost-based approach should be used in accounting for an asset acquisition, and that in a cost-based approach the existing assets are generally not remeasured. The Interpretations Committee also observed that it was not aware of significant diversity in practice and, therefore, decided not to add this issue to its agenda.
23. With respect to the transaction noted in paragraph 21(c), the Committee published an agenda decision at its July 2016 meeting. The agenda decision is available [here](#).
24. The feedback has not provided any new information that the Committee did not consider when it decided upon the transactions to address as part of this project. Accordingly, the Committee recommends not expanding the scope of the project to include other transactions.
25. The Committee also recommends that the Board not defer finalising the amendments to IFRS 11 until it undertakes its PIR of IFRS 11. In May 2014, the Board issued an amendment to IFRS 11 to address how an entity accounts for the acquisition of interest in a joint operation. The wording of that amendment led to diverse views on how an entity accounts for its previously held interest in a business that is a joint operation when it obtains joint control of that joint operation. The amendments to IFRS 11 simply clarify the accounting in that situation. Given that this transaction (ie

obtaining joint control of a business that is a joint operation) is common, the Committee thinks it is important that the Board provide clarity on a timely basis. Accordingly, the Committee sees little benefit in delaying the amendments to IFRS 11 until the PIR of IFRS 11.

*Committee's recommendation*

26. The Committee recommends no change to the scope of the amendments to IFRS 3 and IFRS 11. The Committee also recommends that the Board not defer finalising these amendments.

***IFRS 11 Issue — Significance of obtaining joint control of a joint operation***

*Overview of feedback*

27. A few respondents said that obtaining joint control of a business that is a joint operation represents a significant economic event. Accordingly, these respondents said, in this situation, an entity should remeasure its previously held interest in the joint operation.

*Committee's discussion and analysis*

28. When developing these proposed amendments, the Committee and the Board discussed whether obtaining joint control of a business that is a joint operation represents a significant economic event. The [IASB Update](#) in October 2015 states that:

The IASB agreed with the Interpretations Committee's conclusion that:

- a. the transaction [obtaining joint control of a business that is a joint operation] does not represent a significant economic event;
- b. not remeasuring previously held interests is consistent with the requirements in IFRS 11; and
- c. [...]

29. Paragraph BC2 of the proposed amendments to IFRS 11 explains the Board's conclusion as follows:

The Board observed that, although [obtaining joint control of a business that is a joint operation] changes the nature of any interests in the assets and liabilities of the joint operation, the transaction does not result in a change in the group boundaries or the method of accounting for the previously held interests in the joint operation. In this respect, the transaction is analogous to a transaction that results in an investment in an associate becoming an investment in a joint venture and vice versa. For both of these transactions, as stated in paragraph 24 of IAS 28 *Investment in Associates and Joint Ventures*, an investor does not apply the principles on accounting for a business combination achieved in stages to those previously held interests. The Board also observed that remeasuring previously held interests would conflict with the requirements of IFRS 11 for an entity to account for the assets and liabilities relating to its interest in the joint operation in accordance with the applicable IFRS Standards.

30. The feedback has not provided any new information that the Committee did not consider in reaching its conclusion.

*Committee's recommendation*

31. The Committee recommends no change to the proposed amendments in this respect.

**Question 1 for the Board**

Does the Board agree with the Committee's recommendation to make no change to the proposed amendments in respect of Common Issue and the IFRS 11 Issue?



**Analysis of other issues**

32. Some respondents raised other concerns regarding the proposed amendments to IFRS 3 and IFRS 11. Appendices A–C to this paper summarise these other concerns, together with the staff analysis and recommendations. The Committee agreed with the staff recommendations in Appendices A–C. In particular:
- (a) appendix A summarises other matters raised in respect of the proposed amendments to IFRS 3;
  - (b) appendix B summarises other matters raised in respect of the proposed amendments to IFRS 11; and
  - (c) appendix C summarises matters raised in respect of the proposed transition requirements.

**Question 2 for the Board**

Does the Board agree with the Committee's recommendations on the other matters outlined in Appendices A–C?

## Appendix A

### Analysis of other issues for the proposed amendments to IFRS 3

Issue	Staff analysis and recommendation
<i>Consistency between the proposed amendments to IFRS 3 and IFRS 11</i>	
<p>1. One respondent questioned whether requiring an entity to remeasure its previously held interest when it obtains control of a business that is a joint operation (ie the proposed amendments to IFRS 3) is consistent with prohibiting an entity from remeasuring such interest when it obtains joint control of a business that is a joint operation (ie the proposed amendments to IFRS 11).</p> <p>The respondent said it might be inappropriate for an entity to remeasure its previously held interest when it obtains control of a joint operation. This is because the entity does not change its method of accounting for its previously held interests in the assets and liabilities of the joint operation.</p>	<p>The proposed amendments to IFRS 3 and IFRS 11 are clarifying in nature and are based on existing principles and requirements in IFRS Standards. We think that these proposed amendments are not inconsistent.</p> <p>Paragraph BC384 of IFRS 3 explains the Board’s rationale for requiring an entity to remeasure any previously held interest at fair value in a business combination achieved in stages (emphasis added):</p> <p style="padding-left: 40px;">...The boards concluded that a change from holding a non-controlling investment in an entity to obtaining control of that entity is a <i>significant change in the nature of and economic circumstances surrounding that investment</i>. That change warrants a change in the classification and measurement of that investment. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree...</p> <p>As noted in paragraph BC2 of the proposed amendments to IFRS 11, the Board observed that obtaining joint control of a business that is a joint operation is analogous to a transaction that results in an investment in an associate becoming an investment in a joint venture and vice versa. Paragraph BC30 of IAS 28 explains the Board’s rationale for prohibiting an entity from remeasuring its</p>

	<p>previously held interest when an investment in an associate becomes an investment in a joint venture or vice versa (emphasis added):</p> <p>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 <i>neither a change in the group boundaries nor a change in the measurement requirements</i>, 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.</p> <p>We recommend no change in this respect.</p>
<p><i>Business combinations achieved in stages—exchange of equity interest for underlying assets and liabilities</i></p>	
<p>2. A few respondents said that the principle underlying the accounting for a business combination achieved in stages is that an entity exchanges its equity interests for the underlying assets and liabilities of a business as described in BC384 of IFRS 3. They said that the same principle should not apply when an entity obtains control of a business that is a joint operation. This is because the entity does not have an ‘equity’ interest in the joint operation but has a share in the assets and liabilities of the joint operation before it obtains control of that joint operation.</p>	<p>The Board’s rationale for requiring the remeasurement of previously held equity interest in a business combination achieved in stages is explained in paragraph BC384 of IFRS 3 as follows (emphasis added):</p> <p>...The boards concluded that a change from holding a non-controlling investment in an entity to obtaining control of that entity is a <i>significant change</i> in the nature of and economic circumstances surrounding that investment. That change warrants a change in the classification and measurement of that investment. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree.</p> <p>The Committee and the Board discussed this issue extensively when developing the proposed amendments to IFRS 3. Paragraph BC2 of the proposed amendments to IFRS 3 notes the Board rationale for requiring an entity to</p>

	remeasure its previously held interest when the entity obtains control of a business that is a joint operation. The paragraph notes that the transaction results in a significant change in the nature of, and economic circumstances surrounding, any interest in the joint operation. We recommend no change in this respect.
<i>Other suggestions</i>	
3. One respondent suggested that the Board clarify that the requirement for a business combination achieved in stages applies regardless of whether the joint operation is structured through a separate vehicle.	Proposed paragraph 42A of IFRS 3 uses the term ‘a joint operation’ which is defined in IFRS 11. It is clear that this term applies to all joint operations in IFRS 11. We recommend no change in this respect.
4. One respondent suggested that the Board explain how it decided which transactions to include in the scope of the project.	Paragraphs BC1 of the proposed amendments to IFRS 3 and BC1 of the proposed amendments to IFRS 11 note that there is diversity in how an entity accounts for its previously held interest in the transactions addressed in the ED. We recommend no change in this respect.

## Appendix B

### Analysis of other issues for the proposed amendments to IFRS 11

Issue	Staff analysis and recommendation
<i>Inconsistency with requirements in IAS 28</i>	
<p>1. One respondent noted that some of its constituents said that the proposed amendments to IFRS 11 are not consistent with the requirements in IAS 28. Paragraph 26 of IAS 28 states that an entity adopts the concepts underlying the procedures used in the accounting for the acquisition of a subsidiary in accounting for the acquisition of an investment in an associate or a joint venture.</p> <p>Applying this paragraph, the constituents said that an entity applies the requirements for business combination achieved in stages (and accordingly remeasures any previously held interest in a financial asset) when it acquires additional interest in, and obtains joint control of, a joint venture.</p> <p>Accordingly, these constituents said that an entity should also remeasure its previously held interest when it acquires joint control of a joint operation.</p>	<p>Paragraph 26 of IAS 28 refers to the equity method procedures an entity applies to an investment in an associate or a joint venture. An entity does not apply the equity method to its interest in a joint operation, and thus there is no reason for the amendments to IFRS 11 to be consistent with paragraph 26 of IAS 28.</p>
<i>Other suggestions</i>	
<p>2. A few respondents requested that the Board clarify that the requirement in proposed paragraph B33C of IFRS 11 applies only when a party to a joint operation has rights to the assets and obligations for the liabilities relating to the joint operation (ie the requirement would not apply if the entity does not have any such rights or obligations).</p>	<p>We think this is already clear in proposed paragraph B33C of the proposed amendments to IFRS 11, which refers to ‘previously held interests in the assets and liabilities of the joint operation’. We recommend no change in this respect.</p>

**Appendix C**  
**Analysis of issues for the proposed transition requirements**

Issue	Staff analysis and recommendation
<i>Meaning of the word “for an earlier period”</i>	
<p>1. A few respondents suggested that the Board clarify whether the reference to applying the amendments ‘for an earlier period’ in the proposed transition requirements is intended to permit early application from the beginning of any interim period or whether an entity can early apply the amendments only from the beginning of an annual reporting period.</p>	<p>We think that the Board’s intention is to permit early application only from the beginning of an annual reporting period. Proposed paragraph 64N of the proposed amendments to IFRS 3 states (emphasis added):</p> <p style="padding-left: 40px;">...An entity shall apply those amendments to business combinations for which the acquisition date is on or after <i>the beginning of the first annual reporting period beginning on or after [effective date]</i>.</p> <p>Similarly, the proposed paragraph C1AB of the proposed amendments to IFRS 11 states (emphasis added):</p> <p style="padding-left: 40px;">...An entity shall apply that amendment to transactions for which it obtains joint control on or after the <i>beginning of the first annual reporting period beginning on or after [effective date]</i>.</p> <p>We think that if an entity applies these amendments for an earlier period, it should also apply them to transactions that occur on or after the beginning of an annual reporting period.</p> <p>We think that the term ‘earlier application...is permitted’ is well understood in practice and that the Board does not need to provide any further detail in this respect. IFRS Standards, in many cases, permit early application of new standards or amendments. The wording generally states that “earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact”. The wording used in these amendments is consistent and we think that amending the wording for these amendments could have unintended consequences for other IFRS Standards that use similar wording to permit early application. We recommend no change in this respect.</p>

*Option to apply the proposed amendments retrospectively*

2. One respondent requested that entities be permitted an option to apply these proposed amendments retrospectively.

Paragraph BC4 of the proposed amendments to IFRS 3 states (emphasis added):

...This is because, for transactions occurring before that date, if the previously held interests had not been remeasured retrospective application of this amendment may involve the *use of hindsight* in determining the acquisition-date fair value of the previously held interests.

Paragraph BC4 of the proposed amendments to IFRS 11 states (emphasis added):

...The Board proposes this approach because it believes that the benefits of applying the proposed amendment on a retrospective basis are *unlikely to outweigh the costs*. This is because a retrospective approach would require an entity to go back and analyse all of its acquisitions of joint operations using the new guidance to evaluate its accounting effect.

We think that the Board should not provide an option for entities to apply these amendments retrospectively. For the reasons outlined above, we think that few, if any, entities would make use of this option. Further, permitting retrospective application would introduce complexity. Accordingly, we think the cost of permitting entities to apply the amendments retrospectively outweighs any potential benefit. We recommend no change in this respect.