IFRS™

STAFF PAPER

March 2017

IFRS® Interpretations Committee Meeting

Project	Proposed amendments to IFRS 3 and IFRS 11: Previously Held Interests		
Paper topic	Analysis of feedback on the proposed amendments		
CONTACT(S)	Kan Hara	khara@ifrs.org	+44 (0)20 7246 6968
	Takashi Yamagami	tyamagami@ifrs.org	+44 (0)20 7246 6937

Introduction

1. This paper analyses the feedback on the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*. Those amendments proposed to clarify how an entity accounts for previously held interests 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)[1].

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.

[1] The ED proposed to clarify (a) the definition of a business; and (b) how an entity accounts for previously held interests in particular situations. This paper deals only with the comments on part (b) of these proposed amendments. The Board will redeliberate the comments on the proposed amendments to the definition of a business.

Structure

3. This paper is structured as follows:

   (a) summary of staff recommendations and next steps;

   (b) summary of the proposed amendments and feedback;

   (c) staff analysis; and

   (d) staff recommendation.

4. This paper includes three appendices:

   (a) Appendix A—analysis of other issues for the proposed amendments to IFRS 3;

   (b) Appendix B—analysis of other issues for the proposed amendments to IFRS 11; and

   (c) Appendix C—analysis of issues for the proposed transition requirements.

5. We have analysed what we consider to be the main issues for redeliberation and outline our recommendations for these issues. In the appendices to this paper, we summarise other issues raised in comment letters, together with our related recommendations.

Summary of staff recommendations and next steps

6. We recommend that the International Accounting Standards Board (the Board) finalises the proposed amendments to IFRS 3 and IFRS 11, subject to drafting changes.

7. Subject to the IFRS Interpretations Committee's (the Committee) discussions at this meeting, we will present the Committee's recommendations to the Board at a future Board meeting.

Summary of the proposed amendments and feedback

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

8. 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 at fair value previously held interests in the assets and liabilities relating to the joint operation.

Summary of feedback

9. A large number of respondents agreed with the proposed amendments and a few respondents disagreed. Some of the respondents who agreed with the proposed amendments expressed concerns about particular aspects of the proposals.

10. Those who agreed with the proposed amendments said that the proposed amendments would:

    (a) be consistent with the existing requirements of IFRS 3;

    (b) result in consistent accounting across different forms of business combination achieved in stages; and

    (c) help reduce diversity in practice.

11. The main issues identified by some respondents are as follows:

    (a) scope and timing of the project (Common Issue I) [2] (paragraphs 19–27);

    (b) consistency between the proposed amendments to IFRS 3 and IFRS 11 (Common Issue II) (paragraphs 28–35); and

    (c) clarification of 'previously held interests' (IFRS 3 Issue) (paragraphs 36–40).

[2] Those issues that apply to both the proposed amendments to IFRS 3 and the proposed amendments to IFRS 11 are labelled as 'common issues'.

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

12. 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 previously held interests in the assets and liabilities relating to the joint operation.

Summary of feedback

13. A large number of respondents agreed with the proposed amendments and a few respondents disagreed. Some of the respondents who agreed with the proposed amendments expressed concerns about particular aspects of the proposals.

14. Those who agreed with the proposed amendments said that the proposed amendments would:

    (a) improve the clarity of 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.

15. The main issues identified by some respondents are:

    (a) scope and timing of the project (Common Issue I) (paragraphs 19–27);

    (b) consistency between the proposed amendments to IFRS 3 and IFRS 11 (Common Issue II) (paragraphs 28–35); and

    (c) significance of obtaining joint control of a joint operation (IFRS 11 Issue) (paragraphs 41–45).

The proposed transition requirements

16. 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

17. 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.

18. 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 our recommendations.

Staff analysis

Common Issue I—Scope and timing of the project

Overview of feedback

19. 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 interests in other types of transactions (including those that do not involve a business).

20. Some respondents suggested that the Board undertake a project to comprehensively address how an entity accounts for transactions involving changes of interests. 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.

21. 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.

Staff analysis

22. When developing the scope of the ED, the Committee considered how an entity accounts for changes of interests in different types of transactions. At its July 2015 meeting, the Committee discussed 14 transactions for which it observed possible diversity.[3] 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[4], obtains control of 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.

23. The ED addresses the transactions noted in paragraphs 22(a) and 22(b) in situations in which the joint operation is a business. In addition, 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 including educative guidance on how an entity applies existing requirements in IFRS Standards to account for previously held interests in those situations. The agenda decision says that :

> …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

---

[3] Agenda Paper 6 of the Committee's meeting in July 2015 is available here.

[4] Throughout this paper, a party to joint operation means that 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.

> 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.

24. With respect to the transaction noted in paragraph 22(c), the Committee published an agenda decision at its July 2016 meeting. The agenda decision is available here.

25. 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, we recommend not expanding the scope of the project to include other transactions.

26. We also think the Board should not defer finalising the proposed 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 acquisitions of interests in a joint operation. The wording of that amendment led to diverse views on how an entity accounts for previously held interests in a business that is a joint operation when it obtains joint control of that joint operation. The proposed 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, we think it is important that the Board provide clarity on a timely basis. Accordingly, we see little benefit in delaying the proposed amendments to IFRS 11 until the PIR of IFRS 11.

Staff recommendation

27. On the basis of our analysis, we recommend no change to the scope of the proposed amendments to IFRS 3 and IFRS 11. We also recommend that the Board does not defer finalising these proposed amendments.

Question 1 for the Committee
Does the Committee agree with the staff recommendation to: a. make no changes to the scope of the proposed amendments to IFRS 3 and IFRS 11; and b. not defer finalising these proposed amendments to a later date?

Common Issue II—Consistency between the proposed amendments to IFRS 3 and IFRS 11

Overview of feedback

28. One respondent questioned whether requiring an entity to remeasure previously held interests 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 interests when it obtains joint control of a business that is a joint operation (ie the proposed amendments to IFRS 11).

29. Paragraph BC2 of the proposed amendments to IFRS 11 says:

> 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…

30. Paragraph BC2 of the proposed amendments to IFRS 3 says:

> The Board observed that obtaining control of a business that is a joint operation is a business combination achieved in stages. It also observed that the transaction results in a significant change in the nature of, and economic circumstances surrounding, any interests in the joint operation. The Board

> concluded in developing IFRS 3 that these factors warrant remeasurement at fair value of the previously held interests.

31. The respondent said it might be inappropriate to remeasure previously held interests when an entity obtains control of a joint operation. This is because the entity does not change its method of accounting for previously held interests in the assets and liabilities of the joint operation.

Staff analysis

32. 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.

33. 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):

> …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. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree….

34. As noted in paragraph 29 of this paper, 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 previously held interests when an investment in an associate becomes an investment in a joint venture or vice versa (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.

Staff recommendation

35. On the basis of our analysis, we recommend no change to the proposed amendments in this respect.

Question 2 for the Committee
Does the Committee agree with the staff recommendation to make no change to the proposed amendments in this respect?

IFRS 3 Issue —Clarification of 'previously held interests'

Overview of feedback

36. A few respondents suggested that the Board clarify whether an entity applies the requirement to remeasure its previously held interests to its overall interests in the joint operation or only to any previously recognised share of individual assets and liabilities in the joint operation. For example, one respondent suggested:

> …It be made clear, either by amending the wording of proposed paragraph 42A or by addition of an illustrative example, how the requirement to 'remeasure previously held interests in the joint operation' applies to a previously held interest accounted for by recognising shares of individual assets and liabilities (which may or may not be held via ownership of equity instruments) rather than (as for an associate, joint venture or financial asset accounted for under IFRS 9 or IAS 39) as a single asset. Specifically, it is unclear whether it refers to remeasurement of the overall interest in the joint operation (i.e. including the value of any goodwill or unrecognised intangible assets) or only of previously

> recognised individual assets and liabilities. [Deloitte Touche Tohmatsu]

Staff analysis

37. The Board intended that an entity remeasures its interest in the joint operation immediately before it obtains control. Proposed paragraph 42A of IFRS 3 states (emphasis added):

> … Therefore, the acquirer shall apply the requirements for a business combination achieved in stages, including remeasuring *previously held interests* in the joint operation in the manner described in paragraph 42.

38. Accordingly, an entity remeasures the individual assets and liabilities it had recognised relating to the joint operation immediately before it obtains control. Paragraphs 21 and 23 of IFRS 11 require a joint operator, and a party to a joint operation, to account for the assets, liabilities, revenues and expenses relating to its interest in the joint operation applying the relevant IFRS Standards. This is because a joint operator, and a party to a join operation, do not have rights to the net assets of the joint operation. Instead, they have rights to assets and obligations for liabilities relating to the joint operation.

39. We will consider clarifying how an entity applies the remeasurement requirements when drafting the final amendments.

Staff recommendation

40. On the basis of our analysis, we recommend no significant change to the proposed amendments in this respect.

Question 3 for the Committee
Does the Committee agree with the staff recommendation to make no significant change to the proposed amendments in this respect?

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

Overview of feedback

41. 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 any previously held interests in the assets and liabilities of the joint operation.

Staff analysis

42. 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. […]

43. 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.

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

Staff recommendation

45. On the basis of our analysis, we recommend no change to the proposed amendments in this respect.

Question 4 for the Committee
Does the Committee agree with the staff recommendation to make no change to the proposed amendments in this respect?

Analysis of other issues

46. The appendices to this paper summarise other issues raised by respondents together with our related recommendations. In particular:

    (a) appendix A summarises other issues raised in respect of the proposed amendments to IFRS 3;

    (b) appendix B summarises other issues raised in respect of the proposed amendments to IFRS 11; and

    (c) appendix C summarises issues raised in respect of the proposed transition requirements.

Question 5 for the Committee
Does the Committee agree with the staff recommendations on the other issues outlined in the appendices to this paper?

Appendix A
Analysis of other issues for the proposed amendments to IFRS 3

Issue	**Staff analysis and recommendation**
Business combinations achieved in stages—exchange of equity interest for underlying assets and liabilities	
1. 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.	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): > …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. Once it obtains control, the acquirer is no longer the owner of a non-controlling investment asset in the acquiree. 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 entities to remeasure previously held interests when an 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.

Other suggestions	
2. 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.
3. 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 previously held interests 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**
Inconsistency with requirements in IAS 28	
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. Applying this paragraph, the constituents said that an entity applies the requirements for business combination achieved in stages (and accordingly remeasures any previously held interests in a financial asset) when it acquires additional interests in, and obtains joint control of a joint venture. Accordingly, these constituents say that an entity should also remeasure previously held interests when it acquires joint control of a joint operation.	Paragraph 30(a) of Agenda Paper 6 of the Committee's July 2015 meeting notes that, in July 2010, the Committee discussed how an entity accounts for associates purchased in stages. At that meeting (ie July 2010), the Committee acknowledged that there was diversity in practice. Accordingly, we think that it is not always the case that an entity remeasures any previously held interests when it obtains joint control over a joint venture. We recommend no change in this respect.
Other suggestions	
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).	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.

Appendix C
Analysis of issues for the proposed transition requirements

<table>
<tr><th>Issue</th><th>Staff analysis and recommendation</th></tr>
<tr><td colspan="2">Meaning of the word “for an earlier period”</td></tr>
<tr><td>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.</td><td>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):

…An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after [effective date].

Similarly, the proposed paragraph C1AB of the proposed amendments to IFRS 11 states (emphasis added):

…An entity shall apply that amendment to transactions for which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after [effective date].

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.

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.</td></tr>
</table>

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 retrospectively apply these amendments. 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.