IFRS

STAFF PAPER

March 2019

IFRS® Interpretations Committee meeting

Project	**Sale of output by a joint operator (IFRS 11)**
Paper topic	Agenda decision to finalise

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how a joint operator accounts for output arising from a joint operation. The submission asked about the accounting when the output a joint operator receives and sells in a reporting period is different from the output to which it is entitled (output imbalance).

2. Specifically, the submission asked whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

3. In November 2018 the Committee published a tentative agenda decision. In that tentative agenda decision, the Committee observed that paragraph 20(c) of IFRS 11 *Joint Arrangements* requires the joint operator to recognise revenue from the sale of its share of the output arising from the joint operation. Accordingly, the revenue recognised by a joint operator depicts the output it has received from the joint operation and sold, rather than for example the production of output. The joint operator accounts for the revenues relating to its interest in the joint operation applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).

4. The Committee concluded that in the fact pattern described in the submission, the joint operator recognises revenue that depicts only the transfer of output to its

customers in each reporting period, ie revenue recognised applying IFRS 15 *Revenue from Contracts with Customers*. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but has not received from the joint operation and sold.

5. The objective of this paper is to:
   (a) analyse the comments on the tentative agenda decision; and
   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

6. There are two appendices to this paper:
   (a) Appendix A—proposed wording of the agenda decision; and
   (b) Appendix B—comment letters.

Comment letter summary

7. We received eight comment letters, reproduced in Appendix B to this paper.

8. The Accounting Standards Committee of Germany, Deloitte, EY, the Malaysian Accounting Standards Board, Mazars, Petrobras and the Universidad de Chile IFRS Technical Committee agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. Nonetheless, Deloitte, EY and Mazars have comments on some aspects of the tentative agenda decision.

9. The Global Financial Reporting Collective (GFRC) agrees with the Committee's decision not to add the matter to its standard-setting agenda and its conclusion about the accounting. However, it says it has a different rationale from the Committee for that conclusion.

10. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

Paragraph 21 of IFRS 11

Matter raised by respondents

11. The GFRC suggests that the Committee remove the reference to paragraph 21 of IFRS 11 from the tentative agenda decision. It says:

> We think the words 'relating to its interest in the joint operation' [in paragraph 21 of IFRS 11] are clearly intended to relate to how an operator would account for its interest in an asset that is jointly controlled by the operators, a liability for which they are jointly and severally liable and for expenses incurred jointly and revenues generated jointly. In this fact pattern the costs of production are generated jointly but […] the sales are not...We think this is the only sensible application of IFRS Standards.

12. The GFRC says in the fact pattern in the submission the operators have an interest in the production of the joint operation and, therefore, that paragraph 21 of IFRS 11 is relevant to the accounting for any related production costs. However, the GFRC says once the joint operator has taken its share of the output, the sales that the joint operator subsequently makes of that output have nothing to do with the joint operation or IFRS 11.

Staff analysis

13. We do not agree with the analysis of the GFRC. Paragraph 20 of IFRS 11 states:

> A joint operator shall recognise in relation to its interest in a joint operation:
>
> (a) its assets, including its share of any assets held jointly;
>
> (b) its liabilities, including its share of any liabilities incurred jointly;
>
> (c) its revenue from the sale of its share of the output arising from the joint operation;

(d) its share of the revenue from the sale of the output by the joint operation; and

(e) its expenses, including its share of any expenses incurred jointly.

14. Paragraph 20(c) of IFRS 11 applies to revenue from the sale of a joint operator's share of the output arising from a joint operation. The fact pattern in the submission is, therefore, within the scope of IFRS 11.

15. The phrase 'in relation to its interest in the joint operation' in paragraph 20 of IFRS 11 is similar to the phrase 'relating to its interest in the joint operation' in paragraph 21. Accordingly, we think paragraph 21 of IFRS 11 applies to all the circumstances listed in paragraph 20 of IFRS 11, including a joint operator's revenue from the sale of its share of the output arising from the joint operation (ie paragraph 20(c)).

16. In other words, paragraph 21 of IFRS 11 requires the joint operator to account for its revenue from the sale of its share of the output arising from the joint operation applying the applicable Standard, ie IFRS 15.

17. Accordingly, we recommend no changes to the agenda decision in this respect.

Scope of the tentative agenda decision

Matter raised by respondents

18. EY, the GFRC and Mazars suggest four areas for which the Committee could expand the scope of the tentative agenda decision:

(a) Asset or liability position—EY and the GFRC suggest that the Committee consider whether the joint operator has an asset or liability arising from any output imbalance, and if so, the nature of that asset or liability.

(b) Cost of goods sold—EY says it is aware of diversity in practice in relation to the recognition of cost of goods sold in the fact pattern in the submission. It says this is related to the measurement of any asset or liability recognised for the output imbalance.

(c) Inventory—the fact pattern in the submission assumes that the joint operator receives and sells the output from the joint operation in the same reporting period. The GFRC suggests that the Committee consider a scenario in which the joint operator does not sell all of the output received during the reporting period. In this case the joint operator may have inventory at the end of the reporting period.

(d) Settlement mechanism—Mazars suggests that the Committee consider a fact pattern in which any output imbalance is settled in cash rather than a future delivery of output. It says this is a more common fact pattern than settlement through a future delivery of output.

19. The GFRC also suggests wording changes to the tentative agenda decision if the Committee decide not to address these matters to clarify that the Committee did not consider these matters.

Staff analysis

20. The submission asked about the recognition of revenue in a specific fact pattern. It did not ask about the related questions raised by EY, the GFRC and Mazars.

21. At its November 2018 meeting the Committee considered the outreach performed on this submission. This highlighted that there are differences in the measurement of output imbalances in practice. The Committee also discussed whether to address questions about the nature of any asset or liability the joint operator might recognise for any output imbalance and inventory accounting. The Committee decided not to address those topics in the agenda decision.

22. We think the comment letters provide no new information in this respect. Accordingly, we recommend that the Committee does not expand the scope of the tentative agenda decision.

23. However, we recommend amending the first paragraph of the agenda decision to clarify that the agenda decision addresses only the recognition of revenue in the fact pattern described in the submission. We have proposed changes in Appendix A to this paper.

Wording suggestions

Matter raised by respondents

24. Deloitte and the GFRC suggest that the Committee amend the tentative agenda decision so that it explicitly states that each operator would recognise no revenue or other income until it receives and sells output from the joint operation.

25. The GFRC also suggests two other wording changes to the tentative agenda decision (suggested additions are underlined, and deletions are struck-through):

    (a) Amend the first sentence of the third paragraph to say 'In relation to a joint operator's interest in a joint operation, paragraph 20(c) of IFRS 11 requires the joint operator to recognise its revenue...';

    (b) Amend the second sentence of the third paragraph to say 'Accordingly, the revenue recognised by a joint operator depicts the output it has ~~received from the joint operation and~~ sold, rather than for example on the basis of its entitlement to ~~the production of~~ output.'

Staff analysis

26. The Committee's conclusion relates to the requirements in paragraph 20(c) of IFRS 11, which address the accounting for revenue. We think the tentative agenda decision is already sufficiently explicit in this regard. In particular, it says:

> The Committee concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but has not received from the joint operation and sold.

27. Accordingly, we recommend no changes to the agenda decision in this respect.

28. We do not agree with the GFRC's suggestion for the second sentence of the third paragraph. However, we recommend amending the first sentence of the third

paragraph of the agenda decision as suggested by the GFRC. We think this more accurately describes the requirements of paragraph 20(c) of IFRS 15.

Staff recommendation

29. On the basis of our analysis, we recommend finalising the agenda decision as published in *IFRIC Update* in November 2018 with some editorial changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

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

Appendix A—Proposed wording of the agenda decision

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

Sale of output by a joint operator (IFRS 11 *Joint Arrangements*)

The Committee received a request about ~~how~~ the recognition of revenue by a joint operator ~~accounts~~ for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled. In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation and is obliged to pay for a fixed proportion of the production costs incurred. For operational reasons, the output received by the joint operator and transferred to its customers in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation—it cannot be settled in cash. Applying IFRS 15 *Revenue from Contracts with Customers*, the joint operator recognises revenue as a principal for the transfer of all the output to its customers.

The request asks whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

In relation to a joint operator's interest in a joint operation, paragraph 20(c) of IFRS 11 requires the joint operator to recognise its revenue from the sale of its share of the output arising from the joint operation. Accordingly, the revenue recognised by a joint operator depicts the output it has received from the joint operation and sold, rather than for example the production of output. The joint operator accounts for the revenues relating to its interest in the joint operation applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).

The Committee concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but has not received from the joint operation and sold.

The Committee concluded that the principles and requirements in ~~existing~~ IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation as described in the request. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters

MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

1 February 2019

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions published in IFRIC Update December 2018:

(1) Credit enhancement in the measurement of expected credit losses (IFRS 9 *Financial Instruments*).

(2) Curing of a credit-impaired financial asset (IFRS 9 *Financial Instruments*).

(3) Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 *Financial Instruments*).

(4) Sale of output by a joint operator (IFRS 11 *Joint Arrangements*).

(5) Customer's right to access the supplier's software hosted on the cloud (IAS 38 *Intangible Assets*).

We agree with the Committee's decision not to take these issues onto its agenda and we agree with the Tentative Agenda Decisions.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

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Global Financial Reporting Collective
incorporating the Pacioli Initiative

globalfrcollective@gmail.com

4 February 2019

IFRS Interpretations Committee
IFRS Foundation
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The Global Financial Reporting Collective is pleased to offer its comments on the Tentative Agenda Decision—Sale of output by a join Operator.

We think this is an important question to answer, partly because we are troubled that what we understand to be the "entitlements method" is, for all intents and purposes, proportionate consolidation of the joint operation by the operators. IFRS 11 made clear that proportionate consolidation was not permitted after its introduction. It is possible that that those entities using the entitlements method argue that it is IAS 18 that allowed them to recognise as their revenue sales made by other operators, but we see no basis for reaching that conclusion. The entitlements method seems to have evolved during a time when IAS 31 (and other national GAAPs) allowed proportionate consolidation including for those applying US GAAP where there has been specific industry guidance for this sector. We thought that the entitlements method would have disappeared when IFRS 11 came into effect. However, for whatever reasons, it seems to have survived and the introduction of IFRS 15 seems an appropriate time to review practice.

We agree with the conclusion that IFRS 15 is clear that an entity is only able to recognise revenue from sales to its customers when it has made a sale to its customers. A sale of output by another operator to that other operator's customers is not a sale made by the party that has not taken as much product as they have paid for in sharing the costs of the joint operation. Instead, they have a right to additional output in a future period—they have prepaid inventory.

We think the Agenda Decision should go further and state that each operator would recognise as income only the sales made to their customers. This is not just an IFRS 15 issue. In the scenario set out in the tentative Agenda Decision, the operator with prepaid inventory should not recognise any other form of income, including income outside the scope of IFRS 15.

We think the drafting of the Agenda Decision could be made clearer in several places, starting with the opening sentence:

> The Committee received a request about how a joint operator accounts for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled.

You have not completely answered this question. You have concluded that the operator recognises revenue only for its sales. However, you do not say how they need to account for their entitlement to receive the product they have paid for in advance or if they have taken more than their entitlement how they should account for the fact that they have paid for a smaller portion and in a future period will pay for more than they will receive. We would prefer that you answer this question. We think the party taking less than their entitlement has an asset (a claim to inventory / product) that it should measure it on the same basis as its inventory. A party taking more than its share has a simple accrued liability that it will settle when it pays its share of product in a future period but does not take the related output. However, we suspect that adding this additional guidance would require re-exposure of the tentative Agenda Decision.

If you don't wish to answer that question then the initial question should be modified to say something like:

> The Committee received a request about the recognition of revenue when a joint operator sells all of the output it has taken from a joint operation (as defined in IFRS 11), but the amount of output the operator has taken is more, or less, than the output to which it is entitled.

We think you should delete the words indicated :

> In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation and is obliged to pay for a fixed proportion of the production costs incurred. For operational reasons, the output received by the joint operator ~~and transferred to its customers~~ in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation—it cannot be settled in cash. Applying IFRS 15 *Revenue from Contracts with Customers*, the joint operator recognises revenue as a principal for the transfer of all the output to its customers.

If you want to limit the scenario to cases when all of the output is always sold you could state "In this fact pattern all of the output taken by each operator has been sold by that operator." However, the answer should not change even if an operator is holding some of the inventory in stock at the end of the period (i.e. has not sold it). The words we have struck out make the fact pattern more confusing than it should be and imply that the transfer of all output to customers is important.

We suggest amending the following sentence:

> In relation to a joint operator's interest in a joint operation, paragraph 20(c) of IFRS 11 requires the joint operator to recognise <u>its</u> revenue from the sale of its share of the output arising from the joint operation.

The word "its" is used in 20(c) and we think it helps to distinguish this revenue from an operator's *share* of the sales made by the joint operation (20(d). In the fact pattern the joint operation has not made any sales. The joint operation is only a producer and each operator contributes to the costs of the production and takes a share of the output. Each operator then makes *its* own sales and accounts for 100 per cent of them.

We suggest some changes to the sentences as follows:

> Accordingly, the revenue recognised by a joint operator depicts the output it has ~~received from the joint operation and~~ sold, rather than for example <u>on the basis of its entitlement to</u> ~~the production of~~ output. ~~The joint operator accounts for the~~

~~revenues relating to its interest in the joint operation by applying the IFRS Standards applicable to the particular revenues (paragraph 21 of IFRS 11).~~

The first changes are to simplify the Agenda Decision. The second suggestion is because in this fact pattern the operators have an interest in the production of the joint operation. Paragraph 21 of IFRS 11 is relevant to the accounting for those costs. Once the operator has taken its production output the sales they make of that output are their sales and have nothing to do with the joint operation or IFRS 11. If they have control of the output, which they seem to do here, they can do what they want with the output and therefore they account for its subsequent actions with the output not in their capacity as operators but as individual entities. An operator who has taken less than their entitlement accounts for their right to more than their fixed share in a future period and a party that has taken more than its proportionate share has an obligation which it will extinguish by contributing to its share of future costs but then refraining from taking output.

We think the words "relating to its interest in the joint operation" are clearly intended to relate to how an operator would account for its interest in an asset that is jointly controlled by the operators, a liability for which they are jointly and severally liable and for expenses incurred jointly and revenues generated jointly. In this fact pattern the costs of production are generated jointly but are the sales are not. To emphasise this point, suppose there are two joint operators each entitled to a fixed 50 per cent of the output (and they share the costs 50:50). Suppose it is a new arrangement and because of the way their financial year ends sit only one operator has taken any output. That operator has all of the output. They could sell it, destroy it or store it. The other operator might not even know what they have done with it. The output is controlled by the first operator and any decisions it makes about what to do with that output do not affect the joint operation or the other operators. We think this is the only sensible application of IFRS Standards.

Accordingly, we agree with the conclusion that each operator recognises as revenue from contracts with customers only the revenue that comes from its contracts with customers. However, we get to that conclusion in a different way. We also think this Agenda Decision will leave unresolved how to characterise the asset and liability the imbalance creates. It would be better to resolve that accounting.

Thank you for considering our comments.

Global Financial Reporting Collective

4 February 2019

About the Global Financial Reporting Collective

The **Global Financial Reporting Collective** is a coalition of academics who support global financial reporting standards and who are motivated to help the IASB to develop high quality standards. The Collective does not have a jurisdictional base. It operates as a virtual, global network.

The Collective was established in 2018. In its initial phase it is managed by a small group of volunteers who analyse IASB proposals and collate comments into comment letters to the IASB. In the second phase the Collective plans to develop a website that will enable a broader range of academics, and practitioners, to provide analysis of proposals. Any comments and input received will not be attributed to an individual. We plan to provide mechanisms to allow individuals to make observations which can then be assessed on their merits, rather than be influenced by the reputation of the submitter—a blind review process.

The primary focus of comments from the Collective is on the clarity and internal and conceptual consistency of proposals, mainly informed from experience with teaching from IFRS Standards or applying them in practice. The Collective does not represent any sector and will not lobby on behalf of any entity or sector to support a particular view.

The purpose of the **Pacioli Initiative** is to make research and learning resources available to the broader community of people using global financial reporting standards. A portal for sharing these resources is being developed as part of the second phase of the Collective. We welcome any input on IFRS-related matters that could be helpful to those who teach or research in this area.

EY
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INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
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5 February 2019

Dear IFRS Interpretations Committee members,

Tentative agenda decision- Sale of Output by a Joint Operator (*IFRS 11 Joint Arrangements*) - Agenda Paper 2 (*IFRIC Update* November 2018)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision (TAD) of the IFRS Interpretations Committee (the Committee) published in the November 2018 *IFRIC Update*.

The Committee received a request as to how a joint operator accounts for output arising from a joint operation (as defined in IFRS 11 *Joint Arrangements*) when the output it receives in a reporting period is different from the output to which it is entitled. The request asked whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

The Committee concluded that the principles and requirements in existing IFRS Standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation, as described in the request. We agree with the Committee's observation that in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period (i.e., revenue recognised applying IFRS 15 *Revenue from Contracts with Customers*). We also concur with the Committee's observation that the joint operator only recognises revenue for the output it has received from the joint operation and sold to customers, regardless of the amount to which the joint operator is entitled.

We, therefore, support the Committee's tentative decision not to take the specific request onto its agenda and agree with the conclusion in the TAD. However, we believe further clarification of the consequences of this conclusion on the measurement and timing of recognition of costs of goods sold is needed to help reduce diversity in practice.

We note that the request did not focus on the mismatch that arises if revenues are recognised based on actual output sold, but costs are being invoiced from the joint operation in proportion to the joint operators' entitlement to output. While this was raised briefly during the Committee meeting, the TAD does not address this consequential impact.

There is diversity in practice as to how this mismatch is addressed; this arises, at least in part, due to different perspectives on the basis for any accrual for, or deferral of, expenditures when there is a difference between the costs associated with the output sold (and thus recorded as revenue) and the costs incurred based on entitlement percentage. That is, the accounting depends on whether the adjustment is considered to record either: 1) a prepayment or accrual for production costs; or 2) a right to, or obligation for, the provision of petroleum product in the future. This leads to some entities measuring the adjustment to cost of goods sold at cost and others at fair value. While the TAD would clarify the revenue accounting, we are concerned that a lack of clear guidance in respect of accounting for this mismatch could mean that diversity in practice will continue. We recommend the Committee address this consequential issue before finalising the TAD. Alternatively, if the TAD is finalised as is, we recommend the Committee refer this consequential issue to the Board for consideration as part of the post-implementation review of IFRS 11.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

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6 February 2019

Sue Lloyd
Chair
IFRS Interpretations Committee
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7 Westferry Circus
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E14 4HD

Dear Ms Lloyd

Tentative agenda decision – IFRS 11 *Joint Arrangements*: Sales of output by a joint operator

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the recognition of revenue by a joint operator whose proportionate right to output over the life of a joint operation differs from the proportion of actual output it receives in a particular reporting period.

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, but recommend the following change to provide clarity that no revenue or income should be recognised until the output is sold (whether it is revenue from contracts with customers or other income):

"The Committee concluded that in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, ie revenue recognised applying IFRS 15. This means~~, for example,~~ <u>that</u> the joint operator does not recognise revenue <u>from contracts with customers or other income</u> for the output to which it is entitled but has not received from the joint operator and sold."

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

6 February 2019

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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London E14 4HD
United Kingdom

Dear Ms. Lloyd:

The Universidad de Chile IFRS Technical Committee has decided to answer your request on the Tentative Agenda Decision published in IFRIC Update December 2018, as how to treat the sale of output by a joint operator (IFRS 11, *Joint Arrangements*).

We agree with the Committee's decision not to take this issue onto its agenda and we agree with the Tentative Agenda Decision.

Thank you.

Yours sincerely,

Leonardo Torres
President IFRS Technical Committee
Universidad de Chile

Rio de Janeiro, February 06, 2019

CONTRIB 0010/2019

Ms Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD, UK.

Subject: Tentative agenda decision

Reference: Sale of output by a joint operator

Dear Ms Lloyd,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision - Sale of output by a joint operator. 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.

We generally agree with the Interpretations Committee's conclusion and we support the decision not to add this item to its agenda.

If you have any questions in relation to the content of this letter please do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

Rodrigo Araujo Alves

Chief Accounting and Tax Officer

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Sue Lloyd
Chair of the IFRS Interpretations Committee
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United Kingdom

IFRS Technical Committee
Phone: +49 (0)30 206412-12
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Berlin, 06 February 2019

Dear Sue,

RE: The IFRS IC's tentative agenda decisions in its November 2018 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the November 2018 IFRIC Update.

We agree with four of the tentative agenda decisions. However, in respect of two tentative agenda decisions we have concerns with the decision and the reasons cited, namely the tentative decisions on physical settlement of contracts (IFRS 9) and cloud computing (IAS 38).

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

MAZARS

Mrs Sue Lloyd
IFRS Interpretations Committee
Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

La Défense, February 6, 2019

Tentative Agenda Decisions – IFRIC Update November 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the November 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to two issues that are worth considering:

- The tentative decision on physical settlement of contracts to buy or sell a non-financial item (see Appendix 2 to this letter) is contrary to the practice applied by large companies in the energy sector, and we think it necessary to undertake a comprehensive analysis of the issue and the rationale for their current practice before finalizing any decision;
- The issue of the accounting for the curing of a credit-impaired financial asset is not an easy one, and when diving into examples, it appears that there exist within IFRS 9 some unclear requirements or even inconsistencies between the definitions involved. We have tried to develop examples evidencing those difficulties, and we stand ready to present them and our concerns in a dedicated meeting with IFRS IC Staff / members.

Should you have any questions regarding our comments on the various tentative agenda decisions, or should you want us to participate in a meeting as proposed above, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin
Financial Reporting Advisory

Edouard Fossat

MAZARS

Appendix 1

Sale of output by a joint operator (IFRS 11 Joint Arrangements) — Agenda Paper 2

We agree with the Interpretations Committee's analysis that, applying IFRS 15, a Joint Operator recognises revenue only for the output it has received from the Joint Operation and transferred to its customers. No revenue shall be recognised relating to output it has not received from the Joint Operation, or relating to output it has received but not transferred to a customer.

We therefore agree with the Interpretations Committee not to add this matter to its standard-setting agenda.

We nevertheless would have expected the Interpretations Committee to deal at the same time with a slightly different fact pattern – that seems to us more widespread – where the difference between the delivered output and the contractual entitlement to output is settled in cash by / to the other Joint Operator (or the Joint Operation itself). The question of whether such transaction (where Joint Operator A accepts, in exchange for cash, that Joint Operator B receives part of the output to which A is entitled) triggers for revenue recognition seems to us being of high relevance.