IFRS Accounting

Staff paper

Agenda reference: 30A

IASB® meeting

Date	**November 2023**
Project	**Second Comprehensive Review of the *IFRS for SMEs®* Accounting Standard**
Topic	**Proposed amendments to Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)**
Contacts	Tinyiko Denhere (tinyiko.denhere@ifrs.org)

Purpose of the paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to:
   (a) consider feedback on the proposals in the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft) to align Section 15 *Investments in Joint Ventures* (proposed to be renamed *Joint Arrangements)* of the *IFRS for SMEs* Accounting Standard (the Standard) with IFRS 11 *Joint Arrangements*; and
   (b) decide whether to proceed with the proposals in the Exposure Draft to amend Section 15 of the Standard.

2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Accounting Standard.

Structure of this paper

3. This paper is structured as follows:

   (a) staff recommendation (paragraph 4)

   (b) development of the proposals (paragraphs 5–28);

   (c) feedback from comment letters (paragraphs 29–39);

   (d) feedback from outreach events (paragraphs 40–42);

   (e) feedback from the SME Implementation Group (paragraphs 43–44);

   (f) staff analysis (paragraphs 45–64);

   (g) staff recommendation and question for the IASB (paragraph 65); and

   (h) Appendix A—extract from the Basis for Conclusions on the Exposure Draft.

Staff recommendation

4. The staff recommend the IASB confirm its proposed amendments to Section 15 of the *IFRS for SMEs* Accounting Standard.

Development of the proposals

Current requirements

5. Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Accounting Standard is based on IAS 31 *Interests in Joint Ventures* (the predecessor to IFRS 11) and sets out recognition, measurement and disclosure requirements for joint ventures in consolidated financial statements and in the financial statements of an investor that is not a parent but that has a venturer's interest in one or more joint ventures.

6. Joint control is defined in the Standard as the contractually agreed sharing of control over an economic activity and exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing

control (the venturers).[1] This definition is aligned with the concept of control as defined in Section 9 *Consolidated and Separate Financial Statements* of the Standard.

7. A joint venture is defined in the Standard as a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are classified, based on the legal form of the arrangement, as jointly controlled operations, jointly controlled assets or jointly controlled entities:[2]

(a) *jointly controlled operations* are joint ventures that involve the use of the assets and other resources of the venturers instead of the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves;[3]

(b) *jointly controlled assets* are joint ventures that feature the joint ownership of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture;[4] and

(c) *jointly controlled entities* are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest.[5]

8. A venturer, in relation to its interests in *jointly controlled operations*, recognises in its financial statements:[6]

(a) the assets it controls and the liabilities it incurs; and

(b) the expenses it incurs and its share of the income it earns from the sale of the goods or services by the joint venture.

[1] Paragraph 15.2 of the *IFRS for SMEs* Accounting Standard
[2] Paragraph 15.3 of the *IFRS for SMEs* Accounting Standard
[3] Paragraph 15.4 of the *IFRS for SMEs* Accounting Standard
[4] Paragraph 15.6 of the *IFRS for SMEs* Accounting Standard
[5] Paragraph 15.8 of the *IFRS for SMEs* Accounting Standard
[6] Paragraph 15.5 of the *IFRS for SMEs* Accounting Standard

9. A venturer, in relation to its interest in *jointly controlled assets*, recognises in its financial statements:[7]

   (a) its share of the jointly controlled assets, classified according to the nature of the assets;

   (b) any liabilities incurred;

   (c) its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;

   (d) any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and

   (e) any expenses that it has incurred in respect of is interest in the joint venture.

10. A venturer accounts for its interest *in jointly controlled entities* using one of the following:[8]

    (a) the cost model;

    (b) the equity method; or

    (c) the fair value model.

11. The accounting policy election was introduced by the IASB because SMEs experienced difficulty in applying the equity method, and because fair values are relevant for lenders.[9]

Developing the 2020 Request for Information

12. As part of the first comprehensive review of the Standard, the IASB considered aligning the Standard with IFRS 11 however, it decided not to update the Standard, because at that time IFRS 11 had only recently become effective.

[7] Paragraph 15.7 of the *IFRS for SMEs* Accounting Standard

[8] Paragraph 15.9 of the *IFRS for SMEs* Accounting Standard

[9] Paragraph BC115 of the Basis of Conclusions on the *IFRS for SMEs* Accounting Standard

13. In January 2020, the IASB published Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* (2020 Request for Information). The objective of 2020 Request for Information was to obtain evidence, to assist the IASB in deciding whether and how to amend the *IFRS for SMEs* Accounting Standard. As the IASB had deferred a decision on the alignment of the Standard with IFRS 11 in the first comprehensive view it is included in the scope of this review.

14. In considering whether and how to align Section 15 with IFRS 11, the IASB acknowledged that it had already concluded investments in joint ventures to be relevant for entities applying the *IFRS for SMEs* Accounting Standard. The IASB decided the question to include in the invitation to comment, was whether the application of the principles in IFRS 11 would result in information that is more relevant than that obtained by applying the requirements in Section 15 of the Standard.

Aligning the definition of joint control

15. The definition of joint control in IFRS 11 and Section 15 of the Standard is aligned with the definition of control in IFRS 10 *Consolidated Financial Statements* and Section 9 of the Standard respectively.

16. Paragraph 10 of IFRS 10 states that an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities (activities that significantly affect the investee's returns). Paragraph 7 of IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. Paragraph B5 of Appendix B of IFRS 11 states that in assessing whether an entity has joint control of an arrangement, it shall first assess whether all the parties, or a group of the parties, control the arrangement in accordance with IFRS 10.

17. In developing the 2020 Request for Information, the IASB decided to seek views on the alignment of the definition of joint control in Section 15 with IFRS 11, given it

was also seeking views on the alignment of the definition of control in Section 9 of the Standard with IFRS 10.

Classification of joint ventures and related measurement requirements

18. IFRS 11 requires an entity to apply judgement in assessing whether all the parties, or group of parties, have joint control of an arrangement. The entity then determines the type of joint arrangement (whether it is a joint operation or joint venture), depending on the rights and obligations of the parties to the arrangement. In contrast, Section 15 requires that a venturer determines the type of joint venture to which it is party, based on the form or structure of the arrangement (see paragraph 7 of this paper).

19. In developing the 2020 Request for Information the IASB acknowledged the feedback at that time that IFRS 11 had been challenging for entities to apply in practice, specifically in deciding how to classify a joint arrangement as either a joint operation or a joint venture. The IASB noted that it could align the definition of joint control without changing the classification of joint ventures in Section 15 of the Standard.

Feedback on the 2020 Request for Information

20. The 2020 Request for Information asked for views on:

    (a) aligning the definition of joint control in Section 15 with IFRS 11;

    (b) retaining the classification of joint venturers: jointly controlled operations, jointly controlled assets and jointly controlled entities; and

    (c) retaining the measurement requirements of Section 15, including the accounting policy election for jointly controlled entities.

Aligning the definition of joint control

21. Most respondents agreed that Section 15 should be aligned with the IFRS 11 definition of joint control. They said the alignment would be consistent with aligning

the definition of control with IFRS 10 and contribute to achieving the principle of faithful representation.

Classification of joint ventures and related measurement requirements

22. Many respondents were in support of retaining the classification and related measurement requirements of joint ventures in Section 15 of the Standard rather than aligning with IFRS 11. These respondents were of the view that retaining the classification requirements should avoid the difficulty and significant judgements involved in applying the classification requirements in IFRS 11 as the Section 15 classifications are based on the structure of the joint venture which is simpler for SMEs to apply.

23. Some respondents were supportive of aligning the classifications in Section 15 of the Standard with IFRS 11 because the requirements in IFRS 11 provide a clearer principle in classifying joint arrangements.

24. Some respondents said that retaining the three classes of joint ventures while aligning the definition of joint control with IFRS 11 might lead to confusion for users of financial statements.

Proposals in the Exposure Draft

Aligning the definition of joint control and retaining the classification of joint arrangements and related measurement requirements

25. After considering the feedback on the 2020 Request for Information, the IASB proposed to align the definition of joint control with IFRS 11 and retain the classification and measurement requirements in Section 15 (jointly controlled assets, jointly controlled operations and jointly controlled entities). The IASB's reasoning is explained in paragraphs BC119–BC127 of the Basis for Conclusions on the Exposure Draft (see Appendix A to this paper).

Accounting requirements for a party to a jointly controlled operation or a jointly controlled asset (without joint control)

26. The IASB also proposed in the Exposure Draft amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. The IASB's reasoning is explained in paragraphs BC128–BC129 of the Basis for Conclusions on the Exposure Draft (see Appendix A to this paper).

27. Paragraph 15.18 of the Standard states:

> An investor in a joint venture that does not have control shall account for that investment in accordance with Section 11 *Basic Financial Instruments*, Section 12 *Other Financial Instruments Issues* or, if it has significant influence in the joint venture, Section 14 *Investments in Associates*.

28. If paragraph 15.18 of the Standard were instead to be left unchanged, a party (SME) that does not have joint control but is a party to a jointly controlled operation or a jointly controlled asset would recognise a financial asset or an investment in associate even though that party may have the rights to the assets and obligations for the liabilities (see paragraph BC129 of the Basis of Conclusions on the Exposure Draft). This outcome would not faithfully represent the party's interest in the joint arrangement if the party has the right to the assets and obligations for the liabilities relating to the jointly controlled operation or the jointly controlled asset. Aligning paragraph 15.18 of the Standard with paragraph 23 of IFRS 11 will result in an improvement in the financial information provided by applying Section 15 of the Standard because the party will classify and recognise its interest according to the classifications and related measurement requirements of Section 15.

Feedback from comment letters

29. The Invitation to Comment (ITC) in the Exposure Draft included the following question about the proposed amendments to Section 15:

Question 6(i)
Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

Aligning the definition of joint control

30. Most respondents supported the alignment of the definition of joint control with IFRS 11.

31. A few respondents disagreed with the alignment of the definition of joint control with IFRS 11 for the following reasons:

    (a) the existing definition of joint control is generally understood for entities in the scope of the Standard.

    (b) the definition of joint control in IFRS 11 is complex.

    (c) it will be confusing to align the definition of joint control and change the term from 'joint venture' to 'joint arrangement' in line with IFRS 11 but retain the existing classifications of 'jointly controlled asset', 'jointly controlled operation' and 'jointly controlled entity' rather than the classifications of joint arrangements (joint venture and joint operation) in IFRS 11.

Classification of joint arrangements and related measurement requirements

32. Most respondents supported the retention of the classification and measurement requirements for joint arrangements in Section 15 of the Exposure Draft. Many of these respondents supported this proposal because it simplifies the classification of joint arrangements in the Standard.

33. Some respondents disagreed with the retention of the three classifications of joint arrangements in Section 15 of the Exposure Draft. These respondents explained that they supported alignment with the classification requirements in IFRS 11 as, in their view, the proposed approach is confusing. They provided the following reasons for supporting alignment with the classification requirements with IFRS 11:

    (a) the post-implementation review of IFRS 11 did not find any significant issues and provides evidence that the requirements of IFRS 11 enable an entity to faithfully represent their interests in joint arrangements.

    (b) the IFRS 11 classification would not be costly or difficult to apply for SMEs.

    (c) alignment with the classification requirements in IFRS 11 will reduce unintended consequences of applying different approaches to the definition (aligned with IFRS 11) and classification and measurement (Section 15) of joint arrangements.

34. A few of the respondents that disagreed with the proposal to retain the three classifications of joint arrangements as proposed in the Exposure Draft supported alignment with IFRS 11 classification requirements with the retention of the accounting policy options for the measurement requirements in paragraph 15.9 of the Standard.

Accounting requirements for a party to a jointly controlled operation or a jointly controlled asset (without joint control)

35. The Invitation to Comment (ITC) in the Exposure Draft included the following question about the proposed amendments to Section 15:

Question 6(ii)
Do you agree with this proposal to align Section 15 with the requirements of paragraph 23 of IFRS 11? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

36. Most respondents agreed with the proposal to align Section 15 of the Exposure Draft with the requirements of paragraph 23 of IFRS 11 because it will result in faithful representation.

37. A few respondents agreed with this proposal provided the classification and measurement of joint arrangements are aligned with IFRS 11.

38. A few respondents disagreed with this proposal. These respondents explained that this proposal may be difficult to apply as an investor without joint control may not know how the investor(s) with joint control classified the joint arrangement.

Other comments raised by respondents in relation to the proposed amendments to Section 15

39. Respondents provided further comments on Section 15 of the Exposure Draft as follows:

    (a) *guidance* — a few respondents suggested that further guidance from Appendix B of IFRS 11 should be simplified and included in the Standard to assist preparers in assessing the rights and obligations through the evaluation of legal form and structure of the joint arrangement.

    (b) *wording*— a few respondents noted that the word 'venturer' has been replaced with the word 'party' in Section 15 of the Exposure Draft. They explained that the word ‘party’ is wider in scope and may not always be appropriate. They further explained that the proposed terminology may be confusing to the users of the financial statements.

Feedback from outreach events

40. IASB members and staff participated in 31 outreach events on the Exposure Draft, including round-table meetings and discussion forums. The events were organised in conjunction with national standard-setters, accountancy bodies, auditors and SMEIG members.[10]

41. Participants in outreach events supported the alignment of the definition of joint control and retention of the three classifications of joint arrangements. They said the retention of the Section 15 classifications will relieve SMEs from exercising judgements required under IFRS 11.

42. Some participants disagreed with the proposals to amend Section 15 and said they supported alignment with the classification requirements in IFRS 11. These participants said that the proposal is confusing to users and preparers.

Feedback from the SME Implementation Group (SMEIG)

43. Feedback on the Exposure Draft was discussed by the SMEIG at its meeting on 13 July 2023. Amongst other topics, the SMEIG members were asked for their views on the practical challenges of the proposal to align the definition of joint control with IFRS 11 while retaining the three classifications of joint arrangements as proposed in Section 15 of the Exposure Draft.

44. The views of the SMEIG were mixed. Some SMEIG members supported the proposal to retain the three classifications as an appropriate simplification for SMEs. Some SMEIG members said they would have preferred alignment with the classification

[10] Outreach feedback summary Microsoft PowerPoint - AP30C_IFRS for SMEs Outreach Summary

requirements in IFRS 11, with simplifications, rather than retaining the three classifications in Section 15. However, their view was that the outcome of the proposal will not result in materially different outcomes and suggested that the IASB reassess the decision in the next comprehensive review of the Standard.

Staff analysis

45. The staff analysis is set out as follows:

    (a) aligning the definition of joint control (paragraphs 46–52);

    (b) classification of joint arrangements and related measurement requirements (paragraphs 53–58);

    (c) accounting requirements for a party to a jointly controlled operation or a jointly controlled asset (without joint control) (paragraphs 59–62); and

    (d) other comments raised by respondents in relation to the proposed amendments in Section 15 (paragraphs 63–64).

Aligning the definition of joint control

46. The feedback on the Exposure Draft supports alignment of the definition of joint control in Section 15 with IFRS 11.

47. The alignment of the definition of joint control in Section 15 of the Standard is, in the staff's view, a necessary consequence of aligning the definition of control in Section 9 of the Standard with IFRS 10 and will ensure consistency between the definition of joint control and control.

48. In response to the feedback that the existing definition of joint control is generally understood by entities applying the Standard and that the definition of joint control in IFRS 11 is complex (see paragraph 31 of this paper), the staff acknowledge that the

existing definition of joint control in Section 15 of the Standard is understood, given SMEs have applied the definition since the Standard was issued in 2009.

49. Whilst the staff acknowledge the feedback that the proposed approach to align Section 15 of the Standard with IFRS 11 is confusing (see paragraph 31 of this paper), the proposed change only affects the definition of control. The classification and measurement requirements in Section 15 of the Standard have been retained.

50. In the staff's view, the classification of joint arrangements does not rely on the definition of joint control. The definition of joint control is used in determining whether joint control exists in an arrangement. If joint control exists then the joint arrangement is classified based on the three classifications in Section 15. The classifications in Section 15 have been retained as a simplification because the classifications require less judgement compared to the classification requirements in IFRS 11.

51. The *IFRS for SMEs* Accounting Standard is a stand-alone document, and SMEs do not need to look to IFRS 11 or have IFRS 11 knowledge to apply Section 15 of the Standard. The staff think the confusion likely arises from preparers or users that are familiar or have IFRS 11 knowledge.

Staff conclusion

52. The staff think aligning the definition of joint control in Section 15 of the Standard with IFRS 11 is a consequence of aligning the definition of control in Section 9 of the Standard with IFRS 10. This alignment will improve overall consistency in the Standard.

Classification of joint arrangements and related measurement requirements

53. The feedback from comment letters and outreach events supports the retention of the three classifications of joint arrangements in Section 15 of the Standard, albeit SMEIG members had mixed views on these proposals.

54. The Post-implementation Review of IFRS 11 concluded that IFRS 11 is working as intended, however respondents noted that assessing other facts and circumstances to classify joint arrangements can require significant judgement. The retention of the three classifications of joint arrangements in Section 15 is a simplification that, in making the proposals the IASB considered, results in faithful representation of joint arrangements (see paragraphs BC125–BC126 of the Basis of Conclusions on the Exposure Draft).

55. The staff think that the IFRS 11 classification might be costly or difficult for SMEs to apply due to the judgement required to classify joint arrangements in accordance with IFRS 11 (see paragraph 33 of this paper). In the staff's view, if the classification requirements in Section 15 of the Standard were aligned with IFRS 11, SMEs would incur costs. The IASB acknowledged that classifying jointly controlled entities applying IAS 31 into joint operations or joint ventures applying IFRS 11 requires an entity to assess its rights and obligations arising from these arrangements, which requires the entity to exercise judgement.[11].

56. The staff acknowledge the feedback that the alignment with the classification requirements in IFRS 11 would reduce unintended consequences (see paragraph 33); however, the respondents did not identify the proposal's unintended consequences or provide examples. Besides the lack of comparability between IFRS Accounting Standards and the *IFRS for SMEs* Accounting Standard, the staff did not identify any other unintended consequences of the proposal to align the definition of joint control

[11] Paragraph BC28 of the Basis of Conclusions on IFRS 11

with IFRS 11 and retain the classification and measurement requirements in Section 15 of the Standard.

57. In response to the SMEIG's suggestion that the IASB reassess the decision in the next comprehensive review (see paragraph 44 of this paper), the staff think the IASB has sufficient information to make a decision on this proposal in this review. Furthermore, the staff think the IASB should not plan to reassess its decision in the next review unless significant implementation issues arise.[12]

Staff conclusion

58. The staff think retaining the three classifications of joint arrangements in Section 15 is a simplification that results in a faithful representation of the investments in joint arrangements.

Accounting requirements for a party to a jointly controlled operation or a jointly controlled asset (without joint control)

59. Feedback supported the proposal to align Section 15 with paragraph 23 of IFRS 11 because it will result in faithful representation.

60. The staff do not think there will be a significant difference in the outcome if Section 15 is aligned with the classification and measurement requirements of IFRS 11 (see paragraph 37 of this paper). This is because in applying IFRS 11 the interest will be classified as a joint operation, whereas in applying the proposal in Section 15 the investment will be classified as a jointly controlled operation or a jointly controlled asset. The accounting outcome for jointly controlled assets and jointly controlled operations is similar to the accounting outcome for joint operations applying IFRS 11.

61. In reference to the feedback that the proposal will be difficult to apply (see paragraph 38 of this paper), the staff acknowledge that there is some complexity because a party

[12] Please see paragraph 14 of Agenda Paper 30A of the September IASB meeting

to a joint arrangement that does not have joint control would need to classify the joint arrangement before recognising and measuring its interest in the joint arrangement. However, as discussed in paragraph 28 of this paper, the classification requirements in Section 15 of the Standard are straightforward compared to the requirements in IFRS 11, which reduces complexity.

Staff conclusion

62. The staff think the alignment of Section 15 with paragraph 23 of IFRS 11 improves faithful representation because a party that does not have joint control of a jointly controlled operation or a jointly controlled asset will recognise and measure its interest according to the classification of that jointly controlled operation or the jointly controlled asset in Section 15.

Other comments raised by respondents in relation to the proposed amendments in Section 15

63. The classification of joint control in IFRS 11 involves judgement, hence the IASB's proposal to retain the three classifications in Section 15. The staff think there is no need for additional guidance as suggested by respondents in paragraph 39 of this paper, on the evaluation of the rights and obligations because the joint arrangements in Section 15 are not classified according to the rights and obligations. The IASB decided at its September 2023 meeting to either update the *IFRS for SMEs* educational modules that support the Standard or provide similar comprehensive educational material.[13] The educational modules supporting the Standard will be updated to reflect the amendments to the Standard.

64. In reference to the feedback that the change in the word 'venturer' to 'party' can be confusing (see paragraph 39 of this paper), the staff's view is that the proposed change is to align Section 15 of the Standard with IFRS 11. Paragraph 15.1 of the

[13] See Agenda Paper 30C: Approach to providing educational material on the Standard of the September 2023 meeting and IASB update.

Exposure Draft states: 'Reference to 'party' in this section are to an entity that participates in a joint arrangement. The staff think this clarifies the use of the term 'party' in the context of Section 15 and clarified that it does not have a wider meaning.

Staff recommendation and question for the IASB

65. There was support for the IASB's proposals, so the staff recommend the IASB confirm its proposed amendments to Section 15 of the *IFRS for SMEs* Accounting Standard.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 65?

Appendix A— extract from the Basis of Conclusions on the Exposure Draft

A1. The following extract summarises the considerations of the IASB when developing the proposals for the alignment of Section 15 of the *IFRS for SMEs* Accounting Standard with IFRS 11.

Section 15 Investments in Joint Ventures (renamed *Joint Arrangements)*

BC119. In the first comprehensive review of the Standard, the IASB consulted with stakeholders on aligning the requirements for joint arrangements in Section 15 *Investments in Joint Ventures* (proposed to be renamed Joint Arrangements) with IFRS 11, but decided not to align, because IFRS 11 *Joint Arrangements* had only recently become effective.

BC120. Section 15 of the Standard is based on IAS 31 *Interests in Joint Ventures*. In May 2011, the IASB issued IFRS 11, which replaced IAS 31. In Section 15, 'joint control' is defined as the 'contractually agreed sharing of control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control'. In contrast, in IFRS 11, joint control is defined as the 'contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control'. The IASB noted that, when developing IFRS 11, it did not reconsider the concept of joint control but aligned the definition of 'joint control' with the definition of 'control' in IFRS 10.

BC121. An entity applying IFRS 11 classifies joint arrangements based on the parties' rights and obligations arising from the arrangements. IFRS 11 classifies joint arrangements as either joint operations or joint ventures. In contrast, IAS 31 and Section 15 classify joint arrangements based on the legal form of the arrangements—subdividing arrangements into three categories: jointly controlled operations, jointly controlled assets and jointly controlled entities. Unlike IAS 31, Section 15 does not permit an entity to apply proportionate consolidation in accounting for its interests in jointly controlled entities.

BC122. The IASB had received feedback (when the Request for Information was developed) that IFRS 11 had been challenging for some entities to apply—specifically classifying a joint arrangement as either a joint operation or a joint venture. Therefore, in the Request for Information, the IASB asked for views on aligning the definition of 'joint control' in Section 15 with the definition in IFRS 11, but retaining the three categories of joint arrangements in Section 15.

Aligning the definition of joint control

BC123. Most respondents favoured aligning the definition of joint control in Section 15 with that in IFRS 11. The IASB views aligning the definition of 'joint control' as a consequence of aligning the definition of 'control' in Section 9.

Classification and measurement requirements of joint arrangements

BC124. The IASB, in applying its alignment principles, noted that alignment of the classification and measurement requirements of joint arrangements is relevant to entities that apply the Standard because the improvements IFRS 11 introduced apply to entities that are parties to joint arrangements.

BC125. IFRS 11 requires an entity to exercise judgement to classify its interests in joint arrangements by assessing its rights and obligations arising from the arrangements. In some cases, the judgement required can be significant. There were mixed views from respondents on whether to align the classification requirements with IFRS 11 or retain the Section 15 classification requirements. Those respondents that preferred to retain the classification requirements in Section 15 said retaining the requirements would reduce judgement involved in classifying joint arrangements. However, some respondents said that retaining the classification requirements would embed an inconsistency with full IFRS Accounting Standards and could confuse users of SMEs' financial statements, especially those familiar with full IFRS Accounting Standards. However, the IASB concluded that retaining the classification requirements in Section 15 would be more consistent with the simplicity principle and there was sufficient evidence from the feedback on the Request for Information to retain the classification requirements.

BC126. Findings in the Post-implementation Review of IFRS 11 provided evidence that the requirements in IFRS 11 enable an entity to faithfully represent its interests in joint arrangements by reflecting its rights and obligations arising from the arrangements. However, the IASB concluded that retaining the classification requirements in Section 15 would not significantly impede faithful representation, because the accounting outcome for jointly controlled assets and jointly controlled operations reached by applying Section 15 is similar to the accounting outcome for joint operations reached by applying IFRS 11.

BC127. Section 15 includes an accounting policy election permitting an entity to choose to apply the cost model, the equity method or the fair value model to account for its jointly controlled entities. The IASB introduced the accounting policy election because entities that apply the Standard had experienced difficulty in applying the equity method and because fair values are relevant for lenders. Respondents to the Request for Information agreed with retaining the accounting policy election and the IASB agreed doing so was an appropriate application of the simplicity principle and cost–benefit considerations.

A party to a jointly controlled operation or a jointly controlled asset (without joint control)

BC128. The IASB is proposing amendments to Section 15 to align it with the requirements in paragraph 23 of IFRS 11, so a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset.

BC129. If the IASB retained paragraph 15.18 of the Standard, a party to a jointly controlled operation or a jointly controlled asset that does not have joint control would recognise either a financial asset or an investment in an associate even though that party may have rights to the assets and obligations for the liabilities. The IASB expects that aligning Section 15 with paragraph 23 of IFRS 11 for entities that are parties to a jointly controlled operation or a jointly controlled asset would result in an accounting outcome that faithfully represents the party's rights and obligations arising from the arrangement.