

STAFF PAPER

July 2019

IASB® Meeting

Project	Comprehensive review of the <i>IFRS for SMEs</i>® Standard		
Paper topic	IFRS 11 <i>Joint Arrangements</i>		
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Purpose

1. At this meeting we are asking Board members if the Request for Information that will be issued as part of the 2019 Comprehensive Review of the *IFRS for SMEs* Standard (2012) should seek views on whether and how the requirements of the *IFRS for SMEs* Standard should be aligned with IFRS 11 *Joint Arrangements*.
2. The objective of the Request for Information is to obtain evidence that will assist the Board in deciding whether and how to develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard.

Summary of staff recommendations

3. The staff recommends the Board seek views in the Request for Information on whether and how Section 15 *Investments in Joint Ventures* of the *IFRS for SMEs* Standard should be aligned with IFRS 11, including on:
 - (a) aligning the definitions in Section 15 of the *IFRS for SMEs* Standard with IFRS 11. That is, requiring an entity that is party to a joint arrangement to assess its rights and obligations considering the type of joint arrangement (joint venture or joint operation) to which it is party.

- (b) the accounting policy election from Section 15 is retained, such that an entity that is a venturer in a joint venture elects to apply one of the following:
- (i) the cost model;
 - (ii) the equity method; or
 - (iii) the fair value model.
- (i) an entity that is party to a joint operation recognises its assets, including its share of any assets held jointly;
- (ii) its liabilities, including its share of any liabilities held jointly;
- (iii) its revenue from the sale of its share of the output arising from the joint operation;
- (iv) its share of the revenue from the sale of the output by the joint operation; and
- (v) its expenses, including its share of any expenses incurred jointly.
- (c) the need for requirements in the *IFRS for SMEs* Standard on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Structure of this paper

4. This paper is structured as follows:
- (a) background (paragraphs 5–16):
 - (i) overview of IFRS 11 (paragraphs 5–11);
 - (ii) overview of Section 15 (paragraphs 12–15);
 - (iii) IFRS 11 and Section 15 (paragraph 16);
 - (b) IFRS 11 and the 2012 Comprehensive Review of the *IFRS for SMEs* Standard (paragraphs 17–19);
 - (c) applying the alignment principles (paragraphs 20–47):
 - (i) principle 1—relevance (paragraphs 22–42);
 - (ii) principle 2—simplicity (paragraphs 43–44);
 - (iii) principle 3—faithful representation (paragraphs 45–47);
 - (d) other considerations (paragraphs 48–54):
 - (i) interaction with IFRS 10 (paragraphs 48–53);
 - (ii) amendments to IFRS 11 (paragraph 54);
 - (e) stakeholder views (paragraphs 55–61);
 - (f) question for the Board; and
 - (g) Appendix A—Summary of SMEIG members’ views on whether to align the *IFRS for SMEs* Standard with IFRS 11.

Background

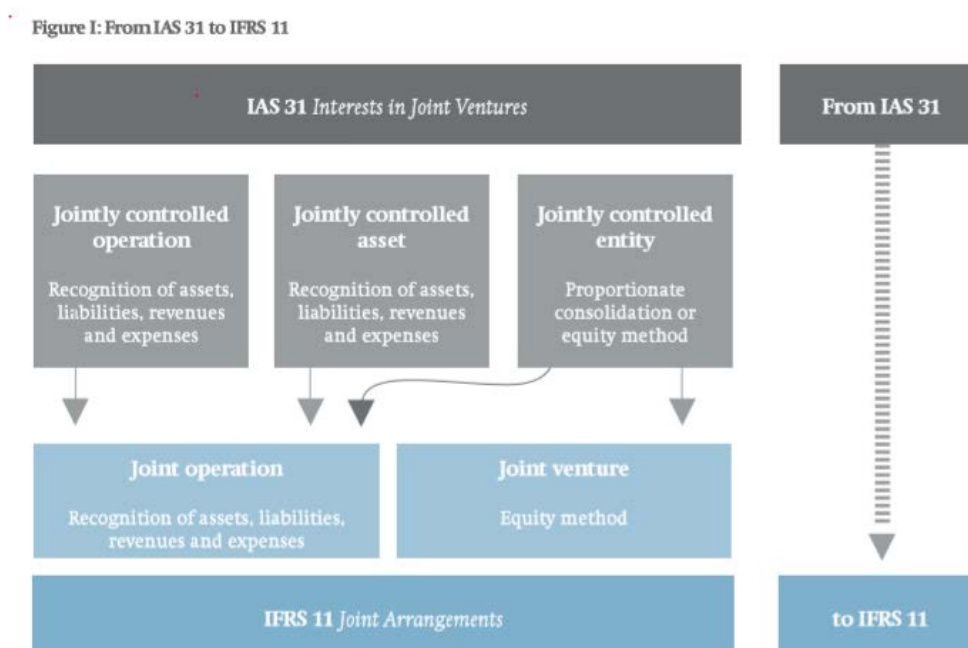
Overview of IFRS 11

5. The Board issued IFRS 11 in May 2011, replacing IAS 31 *Interests in Joint Ventures*.
6. The objective of IFRS 11 is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (joint arrangements).¹
7. IFRS 11 applies to entities that are a party to a *joint arrangement*.² A joint arrangement is an arrangement of which two or more parties have *joint control*. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control.
8. Joint arrangements are classified as either joint operations or joint ventures:
 - (a) *joint operations* are joint arrangements in which the parties that have joint control (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement; and
 - (b) *joint ventures* are joint arrangements in which the parties that have joint control (joint venturers) have rights to the net assets of the arrangement.
9. The principle of IFRS 11 is that a party to a joint arrangement recognises its rights and obligations arising from the arrangement. A joint operator has rights to assets and obligations for liabilities relating to the arrangement and recognises:
 - (a) its assets, including its share of any assets held jointly;
 - (b) its liabilities, including its share of any liabilities held 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

¹ IFRS 11 paragraph 1.

² IFRS 11 paragraph 3.

- (e) its expenses, including its share of any expenses incurred jointly.
10. A joint venture recognises its interest in a joint venture as an investment and applies the equity method of accounting.
 11. This diagram³ outlines the change from the IAS 31 to the IFRS 11 classification model for joint arrangements.



Overview of Section 15

12. Section 15 of the *IFRS for SMEs* Standard is based on IAS 31, which has been replaced by IFRS 11. Section 15 states that:
 - (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;⁴

³ Source: *Effect Analysis on IFRS 11 and IFRS 12* page 18.

⁴ *IFRS for SMEs* Standard paragraph 15.4.

- (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;⁵ 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.⁶
13. A venturer, in relation to its interests in *jointly controlled operations*, recognises in its financial statements:⁷
- (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 goods or services by the joint venture.
14. A venturer, in relation to its interest in *jointly controlled assets*, recognises in its financial statements:⁸
- (a) its share of the jointly controlled assets, classified according to the nature of the assets;
 - (b) any liabilities that it has 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 it has incurred in respect of its interest in the joint venture.

⁵ *IFRS for SMEs* Standard paragraph 15.6.

⁶ *IFRS for SMEs* Standard paragraph 15.8.

⁷ *IFRS for SMEs* Standard paragraph 15.5.

⁸ *IFRS for SMEs* Standard paragraph 15.7.

15. Section 15 requires a venturer to account for all of its interests in jointly controlled entities using one of the following:⁹
- (a) the cost model;
 - (b) the equity method; or
 - (c) the fair value model.

IFRS 11 and Section 15

16. The most significant differences between IFRS 11 and Section 15 are:
- (a) Section 15 is based on IAS 31 definitions; and
 - (b) Section 15 permits a jointly controlled entity to be accounted for applying a cost model, equity method or fair value model whereas IFRS 11 requires a joint venturer to recognise its interest in a joint venture using the equity method.¹⁰

IFRS 11 and the 2012 Comprehensive Review of the *IFRS for SMEs* Standard

17. The Board had already issued IFRS 11 when the 2012 Comprehensive Review of the *IFRS for SMEs* Standard (2012 Review). The 2012 Request for Information asked the following question about aligning Section 15 with IFRS 11:

Should the changes to joint venture accounting in full IFRS be reflected in the *IFRS for SMEs*, modified as appropriate to reflect the needs of users of SME financial statements and cost-benefit considerations?

18. In considering the above question and having obtained views from relevant stakeholders, the Board decided not to align the *IFRS for SMEs* Standard with the changes introduced by IFRS 11 and made the following observations:¹¹

⁹ *IFRS for SMEs* Standard paragraph 15.9.

¹⁰ *IFRS for SMEs* Standard paragraph 15.9.

¹¹ *IFRS for SMEs* Standard paragraph BC198 (a).

IFRS 10, IFRS 11 and IFRS 13 only recently became effective and they introduce complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, they would be expected to have limited practical impact on the majority of SMEs, because the new requirements are unlikely to affect many common fair value measurements and the accounting for groups of entities with a simple group structure.

19. The staff believes it appropriate to review whether to align the *IFRS for SMEs* Standard with IFRS 11 for the following reasons:
- (a) during the 2012 Review, the Board’s focus was to provide entities with a stable platform. The Board prioritised a stable platform over alignment of the *IFRS for SMEs* Standard with full IFRS Standards as the 2012 Review was the first review after the Board issued the *IFRS for SMEs* Standard.¹²
 - (b) the *IFRS for SMEs* Standard has been effective since 2009 with minor amendments made in 2015 following the 2012 Review. The Board can therefore reconsider alignment during the 2019 Review.
 - (c) IFRS 11 was not effective when the 2012 Request for Information was published. Consequently, stakeholders had no implementation experience of IFRS 11 to consider when responding. IFRS 11 has been effective since 1 January 2013, so implementation experience is now available. Furthermore, the Board plans to commence the Post-implementation Review (PIR) of IFRS 11 in the second half of 2019.¹³

¹² *Basis for Conclusions* on the *IFRS for SMEs* Standard, BC197.

¹³ *IFRS for SMEs* Standard paragraph BC198.

Applying the alignment principles

20. At its May 2019 meeting (Agenda Paper 30A), the Board decided that to determine whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, it would apply three principles:
- (a) relevance;
 - (b) simplicity; and
 - (c) faithful representation.
21. The following paragraphs apply the alignment principles to assist the Board in determining whether and how to align the *IFRS for SMEs* Standard with IFRS 11.

Principle 1—Relevance

22. The *IFRS for SMEs* Standard already includes requirements for the accounting for investments in joint ventures. In considering the relevance of information reported applying IFRS 11, an important question is whether applying the principles in IFRS 11 gives rise to information that is more relevant than that obtained by applying the current wording of Section 15 of the *IFRS for SMEs* Standard.
23. The staff notes that previously, one of the reasons the Board decided not to align the *IFRS for SMEs* standard with IFRS 11 was that the requirements of IFRS 11 would be unlikely to affect the accounting for group entities with simple structures. This point has been raised by SMEIG members (see Appendix A paragraph A3).
24. The staff does not recommend that the Board reconsider all the requirements in Section 15. As outlined above, Section 15 already includes simplifications that are appropriate for SMEs, for example, permitting an accounting policy election for jointly controlled entities and eliminating proportionate consolidation.
25. Aligning the definitions in Section 15 with those in IFRS 11 will improve the information provided to users of financial statements prepared applying the *IFRS for SMEs* Standard. The *Effect Analysis* on IFRS 11 and IFRS 12 stated:¹⁴

¹⁴ *Effect Analysis* on IFRS 11 and IFRS 12, page 5.

IFRS 11 establishes a principle-based approach for the accounting for joint arrangements, in which the parties recognise their rights and obligations arising from the arrangements. We believe that the recognition of rights and obligations ensures that the accounting for joint arrangements captures the economic substance of the arrangements, thereby providing consistency in the accounting and resulting in enhanced comparability of financial statements.

Our assessment is that IFRS 11 will bring significant and sustained improvements to the reporting of joint arrangements. The principles for classifying joint arrangements in IFRS 11 reflect the underlying economics of the arrangements...

26. The Effect Analysis noted that IFRS 11 was not expected to have a significant impact:¹⁵

On the basis of the data gathered, our assessment is that IFRS 11 will not lead to a change for a large number of the arrangements within the scope of the IFRS. This is because most joint arrangement activity is dealt with through arrangements that do not involve the establishment of an entity and, as a result, parties will continue recognising assets, liabilities, revenues and expenses arising from those arrangements as they did when applying IAS 31. We expect that most of the arrangements structured through separate vehicles will be 'joint ventures'. This is because, in most cases, the separate vehicles will confer separation between the parties and the vehicles and, as a result, the assets, liabilities, revenues and expenses held in those separate vehicles will be the separate vehicles' assets, liabilities, revenues and expenses, with the parties having only an investment in the net assets of those arrangements. ...

¹⁵ *Effect analysis* on IFRS 11 and IFRS 12, page 5

- 27. There is not reason to suppose the impact would be different if the *IFRS for SMEs* Standard were aligned with IFRS 11.
- 28. The staff also notes that IAS 31 permitted an entity to elect to use either the proportionate consolidation or equity methods of accounting for jointly controlled entities. Section 15 does not permit the use of proportionate consolidation.
- 28. The staff recommends that the Board seek views only on aligning Section 15 with the definitions from IFRS 11 that classify joint arrangements. That is, the staff proposes the Board seek views on introducing a requirement that an entity that is party to a joint arrangement assess its rights and obligations and account for those rights and obligations in accordance with the type of joint arrangement (joint operation or joint venture) to which it is party.

Aligning the definitions in Section 15 with IFRS 11

- 29. IFRS 11 divides joint arrangements into joint operations or joint ventures. In contrast, Section 15 identifies three categories of arrangement—*jointly controlled entities*, *jointly controlled assets* and *jointly controlled operations*.

Jointly controlled entities

- 30. In considering the potential effect of aligning the definitions in Section 15 with IFRS 11, an important question is whether some jointly controlled entities could be reclassified as joint operations.
- 31. Reclassification of a jointly controlled entity as a joint operation would have the consequence that a venturer would no longer be permitted to select an accounting policy (cost, equity or fair value method) but would be required to recognise its share in the joint operation according to its rights and obligations pursuant to the arrangement.

32. The findings of the IFRS 11 *Effect Analysis* were as follows:¹⁶

We expect that fewer 'jointly controlled entities' in IAS 31 will be classified as 'joint operations' in IFRS 11. This is because when arrangements are structured in a separate vehicle that convey separation between the parties and the separate vehicles (the assets and liabilities held in the separate vehicle and not the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties) there are only two ways in which those arrangements can be 'joint operations'. The first way is when the parties have been able to reverse or modify the rights and obligations conferred by the legal form of the separate vehicles through their contractual arrangements (which we do not expect to happen very often). The second way is when the arrangements are designed to undertake an activity that is primarily aimed to provide the parties with an output that the parties have committed themselves to purchase at a price that covers the liabilities incurred by the arrangements when producing that output.

As a result, we consider that arrangements that are structured through separate vehicles that can confer separation between the parties and the separate vehicles will become 'joint operations' in IFRS 11 only in a very limited number of situations.

33. The staff anticipates that entities applying the *IFRS for SMEs* Standard will experience similar effects. Consequently, only in a very limited number of situations will entities applying the *IFRS for SMEs* Standard be required to reclassify jointly controlled entities as joint operations.
34. As noted in paragraph 28, IAS 31 permitted an entity to elect to use either the proportionate consolidation or equity method of accounting for jointly controlled entities. Section 15 does not permit the use of the proportionate consolidation therefore the accounting for jointly controlled entities which are reclassified as joint

¹⁶ *Effect Analysis* on IFRS 11 and IFRS 12, page 20.

ventures, will not change, assuming the Board retains the accounting policy election in Section 15.

Jointly controlled assets and jointly controlled operations

35. The staff notes that in aligning Section 15 with the definitions from IFRS 11, jointly controlled assets and jointly controlled operations are likely to be classified at joint operations. In developing IFRS 11, the Board observed:¹⁷

... that in some instances it might be difficult to assess whether an arrangement is a ‘joint operation’ or a ‘joint asset’. This is because elements from both types of joint arrangement are sometimes present (in many arrangements joint assets are also jointly operated, and therefore such arrangements could be viewed as a ‘joint asset’ or as a ‘joint operation’). Additionally, both types of joint arrangement result in the same accounting outcome...

36. The staff proposes Section 15 be aligned with IFRS 11 such that a joint operator recognises:

- (i) its assets, including its share of any assets held jointly;
- (ii) its liabilities, including its share of any liabilities held jointly;
- (iii) its revenue from the sale of its share of the output arising from the joint operation;
- (iv) its share of the revenue from the sale of the output by the joint operations;
and
- (v) its expenses, including its share of any expenses incurred jointly.

37. These requirements do not differ significantly from the current requirements of Section 15 outlined in paragraphs 13 and 14.

38. The staff, therefore, recommends that the Board still seek views on aligning Section 15 definitions with IFRS 11.

¹⁷ *Basis for Conclusions* on IFRS 11 paragraph BC 25.

Section 15—accounting policy election

39. As noted, Section 15 permits an entity to account for all of its interests in jointly controlled entities using the cost model, equity method or the fair value model. In contrast, IFRS 11 requires the equity method.
40. The accounting policy election was introduced by the Board because SMEs experienced difficulty applying the equity and proportionate consolidation methods, and because fair values are relevant for lenders.¹⁸
41. The staff recommends the Board clarifies in the Request for Information that it intends to retain this simplification, but that it is applied to joint ventures.
42. The Board may wish to seek views on whether the election is necessary, that is, the Board could request information on whether entities applying Section 15 use the fair value option.

Principle 2—Simplicity

43. The IFRS 11 definitions and classification requirements are clearer than those in the *IFRS for SMEs* Standard and are therefore simpler to implement; joint arrangements are classified based on the investor’s rights and obligations in the joint arrangement. Some SMEIG members noted that introducing two instead of three categories of joint arrangements is a simplification for entities applying the *IFRS for SMEs* Standard (see Appendix A, paragraph A4). The staff does not recommend simplifying the definitions.
44. As discussed in paragraphs 39 to 42, the staff recommends the Board clarifies in the Request for Information that it intends to retain the accounting policy election.

Principle 3—Faithful representation

45. In assessing the faithful representation principle, the staff took the view that the proposed alignment will enhance the faithful representation of joint arrangements as

¹⁸ *IFRS for SMEs* Standard paragraph BC115.

all arrangements will be classified and accounted for based on the rights and obligations an investor has in the arrangement, thereby reflecting the substance of investments in joint arrangements.

- 46. Furthermore, the alignment will result in enhanced comparability between entities applying the *IFRS for SMEs* Standard which have investments in joint arrangements.
- 47. The staff does not propose that the Board seek views on simplifying the definitions; however, the staff proposes that the Board retain the accounting policy election. The staff believes that these simplifications do not reduce faithful representation.

Other considerations

Interaction with IFRS 10

- 48. IFRS 10 and IFRS 11 have in common the concept of control.
- 49. IFRS 10 explains that an investor has power over an investee when the investor has existing rights that give it the current ability to direct relevant activities, that is, activities that significantly affect the investee’s returns.¹⁹
- 50. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control.²⁰
- 51. In contrast, Section 15 of the *IFRS for SMEs* Standard defines joint control as being 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 (the venturers).²¹
- 52. IFRS 10 and IFRS 11 have in common the concept of control, including that an investor has the ability to direct the ‘relevant activities’ of the investee. Section 15 refers to the ability to make ‘strategic financial and operating decisions’. The

¹⁹ IFRS 10 paragraph 10.

²⁰ IFRS 11 paragraph 7.

²¹ *IFRS for SMEs* Standard paragraph 15.2.

definition in Section 15 is therefore not consistent with the definitions in IFRS 10 and IFRS 11.

53. Should the Board decide to seek views on aligning the definition of control in Section 9 with IFRS 10,²² the staff recommends that it also seek views on aligning Section 15 with IFRS 11. Should the Board decide not to seek views on aligning Section 9 with IFRS 10, the staff does not recommend that the Board seek views on aligning Section 15 with IFRS 11.

Amendments to IFRS 11

54. The Board has issued the following amendments to IFRS 11 that are included in the scope of the 2019 Review:

²² See Agenda Paper 30B from the July 2019 Board meeting.

IFRS Amendments	Effective date	Overview of the Amendment	Alignment recommended	Staff reasoning
<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> (Amendments to IFRS 10, IFRS 11 and IFRS 12)	January 2013	Provides additional transition relief for IFRS 10, IFRS 11 and IFRS 12	No	This transition relief relates to full IFRS Standards so is not relevant to entities applying the <i>IFRS for SMEs</i> Standard.
<i>Accounting for Acquisitions of Interests in Joint Operations</i> (Amendments to IFRS 11)	January 2016	Adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.	Yes	Responses received from SMEIG members were mixed. The staff therefore recommends the Board seek views in the Request for Information on the need for requirements in the <i>IFRS for SMEs</i> Standard on how to account for the acquisition of an interest in a joint operation that constitutes a business.

<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i></p>	<p>January 2019</p>	<p>Clarifies that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.</p>	<p>Not applicable</p>	<p>The staff will consider this clarification at the drafting stage, subject to the Board deciding to incorporate IFRS 9 <i>Financial Instruments</i> into the <i>IFRS for SMEs</i> Standard.</p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle (IFRS 11)</i></p>	<p>January 2019</p>	<p>The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p>	<p>Not applicable</p>	<p>The staff does not recommend that these amendments be incorporated in the <i>IFRS for SMEs</i> Standard as this level of detail is unnecessary and goes against the principle of a simplified <i>IFRS for SMEs</i> Standard.</p>

Stakeholder views

55. In January 2019 the staff asked members of the Small and Medium-sized Entities Implementation Group (SMEIG) for their views on whether to align the *IFRS for SMEs* Standard with IFRS 11. A summary of responses is set out in Appendix A.
56. SMEIG members were not asked whether they support or object to aligning the *IFRS for SMEs* Standard with IFRS 11.
57. The main objection raised by SMEIG members regarding aligning the *IFRS for SMEs* Standard is that joint ventures are generally not relevant to entities applying the *IFRS for SMEs* Standard.
58. Other stakeholders' views on whether to align the *IFRS for SMEs* Standard with IFRS 11 are mixed. The Asian-Oceanian Standard-Setters Group (AOSSG) survey on the *IFRS for SMEs* Standard found that ten jurisdictions—Cambodia,²³ China, India, Korea, Malaysia, Nepal, Pakistan,²⁴ the Philippines,²⁵ Sri Lanka and Syria—opposed aligning the *IFRS for SMEs* Standard with IFRS 11. In their view, IFRS 11 had only recently become effective and there is uncertainty about the outcome of the PIR. This matter is discussed in paragraph 19.
59. The UK Financial Reporting Council (FRC) had proposed to make amendments to FRS 102—*The Financial Reporting Standard applicable in the UK and Republic of Ireland* with changes in IFRS 11. Ten respondents agreed with the FRC's proposal, one respondent agreed with reservations and fourteen respondents disagreed.
60. The majority of respondents who were in disagreement with the proposal provided the following reasons:
- (a) the implementation costs would far outweigh the benefit given that there would be no practical effect for the vast majority of entities, yet all entities

²³ Cambodia allows entities to use the *IFRS for SMEs* Standard which is adopted without modification.

²⁴ China, India, Korea, Nepal and Pakistan do not use the *IFRS for SMEs* Standard.

²⁵ Malaysia, the Philippines and Sri Lanka' accounting standards for SMEs are substantively identical to the *IFRS for SMEs* Standard.

would still have to go through an exercise to determine that there is no change; and

- (b) the proposal did not meet the principle of balancing improvements with stability.

- 61. The staff has taken into account the concerns of stakeholders when applying the alignment principles.

Questions for the Board

Question 1

Board members are asked if they agree with the recommendations to seek views in the Request for Information on aligning the *IFRS for SMEs* Standard with IFRS 11, including:

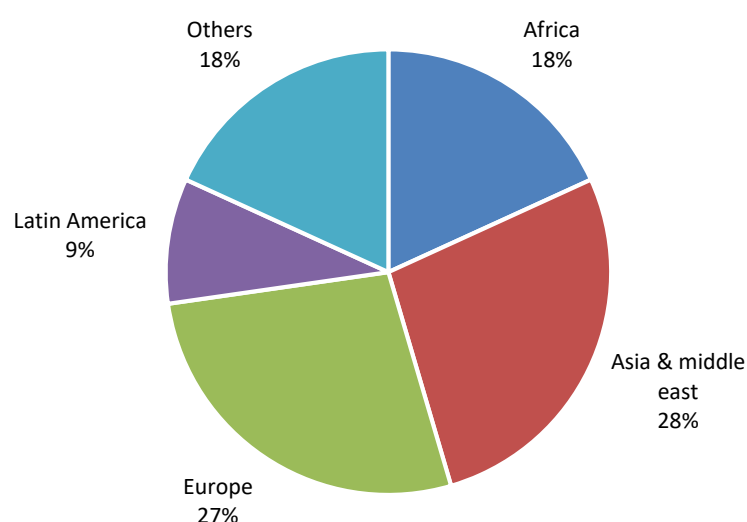
- (a) aligning the definitions in Section 15 of the *IFRS for SMEs* Standard with IFRS 11. That is, requiring an entity that is party to a joint arrangement assess its rights and obligations considering the type of joint arrangement (joint venture or joint operation) to which it is a party?
- (b) retaining the accounting policy election from Section 15, whereby an entity that is a venturer elects to apply one of the following:
 - (i) the cost model;
 - (ii) the equity method; or
 - (iii) the fair value model.
- (c) an entity that is a venturer in a joint operation recognises:
 - (i) its assets, including its share of any assets held jointly;
 - (ii) its liabilities, including its share of any liabilities held jointly;
 - (iii) its revenue from the sale of its share of the output arising from the joint operation;
 - (iv) its share of the revenue from the sale of the output by the joint operation; and
 - (v) its expenses, including its share of any expenses incurred jointly.
- (d) the need for the requirement in the *IFRS for SMEs* Standard on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Question 2

Does the Board want to seek views on whether entities applying Section 15 use the fair value option?

Appendix A—Summary of SMEIG members’ views on whether to align the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements*

- A1. On 29 January 2019 a questionnaire was sent to SME Implementation Group (SMEIG) members to seek their views on whether to align the *IFRS for SMEs* Standard with IFRS 11.
- A2. Eleven SMEIG members (42%) responded to the survey. The geographical distribution of the responses received is shown in the chart below.



- A3. The main reasons given by SMEIG members for not aligning the *IFRS for SMEs* Standard with IFRS 11 are that:
- (a) IFRS 11 is generally not relevant to SMEs (4 respondents);
 - (b) the Board’s previous reasoning, as set out in paragraph BC198 (a) of the Basis for Conclusions on the *IFRS for SMEs* Standard, is still applicable (1 respondent);
 - (c) no PIR has yet been conducted by the Board (1 respondent);
 - (d) no changes should be introduced if the accounting policy election for the measurement of jointly controlled entities is removed (1 respondent).

- A4. The main reasons given by SMEIG members for aligning the *IFRS for SMEs* Standard with IFRS 11 are that:
- (a) introducing two instead of three categories to joint arrangements is a simplification and will not result in significant changes for SMEs (four respondents);
 - (b) IFRS 11 is an important Standard and the *IFRS for SMEs* Standard must therefore be aligned with IFRS 11 (one respondent); and
 - (c) the Board's previous reasons in paragraph BC198 (a) for excluding IFRS 11 from the 2012 Review is no longer applicable (one respondent).