IFRS™

STAFF PAPER

November 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 10 *Consolidated Financial Statements* IFRS 11 *Joint Arrangements***
Paper topic	Transition provisions—Impairment, foreign exchange and borrowing costs

CONTACT(S) Won-Hee Han whan@ifrs.org +44 (0)20 7246 6960

Introduction

1. In January 2013, the IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the transition provisions of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The transition provisions of IFRS 10 and IFRS 11 provide relief from retrospective application in specific circumstances. However, the submitter observes that IFRS 10 and IFRS 11 do not provide specific relief from retrospective application in respect of the application of IAS 36 *Impairment of Assets*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* or IAS 23 *Borrowing Costs*. The submitter thinks that retrospective application of these Standards could be problematic when first applying IFRS 10 and IFRS 11.

2. The Interpretations Committee discussed the issue in its July 2013 meeting.

3. In the July 2013 meeting, the Interpretations Committee noted that:

(a) if retrospective application of the requirements of IFRS 10 is impracticable because it is impracticable to apply retrospectively the requirements of other Standards, then IFRS 10 (paragraphs C4A and C5A) provides relief from retrospective application; and

(b) the only changes resulting from the initial application of IFRS 11 would typically be to change from proportional consolidation to equity accounting or from equity accounting to recognising a share of assets and a share of liabilities. In those situations, IFRS 11 already provides relief from retrospective application. Consequently, the initial application of IFRS 11 should not raise issues in respect of the application of other Standards in most cases.

4. On the basis of the analysis above, the Interpretations Committee tentatively decided not to add this issue to its agenda.

Comments received

5. We received three comment letters[1] on the Interpretations Committee's tentative agenda decision, which are attached to this paper as Appendix B. We have analysed the comments in the following paragraphs.

6. The first letter (The Canadian Accounting Standards Board (AcSB)) agreed with the Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

7. The second letter (KPMG IFRG Limited) also agreed with the Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. KPMG IFRG Limited did, though, provide two drafting suggestions. Its suggestions are as follows:

(a) "We do not agree with the statement in the tentative agenda decision that the definition of joint control in IFRS 11 is similar to the definition provided in IAS 31 *Interest in Joint Ventures*. Instead, it would be fair to say that assessing whether control is held 'jointly' is in practice similar

[1] The Canadian Accounting Standards Board (AcSB), Deloitte Touche Tohmatsu Limited and KPMG IFRG Limited

under IFRS 11 when compared to IAS 31 (though not invariably so); this is largely because the relevant activities of such investees tend, in practice, to be the same as significant financial and operating policies under IAS 27 *Consolidated financial Statements* (see, for example, paragraphs B11 and B12 of IFRS 10).”

(b) “The last sentence of the second paragraph of the tentative agenda decision refers to paragraph C4A as providing ‘relief from retrospective application. However, the requirements of that paragraph are not a relief because they require the entity to apply the acquisition method, which can be a costly exercise. We recommend that it simply refer to applying the exemptions from retrospective application in paragraph C4A and C5A.”

8. We have considered those suggestions and reflected them as appropriate in the proposed final agenda decision, which is attached to this paper as Appendix A.

9. The third letter (Deloitte Touche Tohmatsu Limited) did not agree with the Interpretations Committee’s decision not to add this item onto its agenda. Deloitte presented the following reasons:

(a) the term ‘impracticability’ is currently interpreted as applying only in limited circumstances under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The tentative agenda decision may be interpreted as broadening the circumstances in which this concept applies (both in the context of transition to IFRS 10 and IFRS 11 and elsewhere);

(b) the existing transition provisions of IFRS 10 do not address circumstances in which commencing or discontinuing consolidation of an investee could have an impact on, for example, the borrowing costs available for capitalisation by other entities within a group or the cash-generating units to which goodwill is allocated for the purposes of impairment testing; and

(c) the assessment of whether an investor has joint control of a joint arrangement could be different under IFRS 11 and IAS 31, as opposed to the tentative agenda decision. The different assessment could result not only from the incorporation of the changed definition of control in IFRS 10 (as noted in the tentative agenda decision) but also from consideration of whether decisions about 'relevant activities (rather than, as under IAS 31, 'strategic financial and operating decisions') require unanimous consent.

Staff analysis

10. We have examined the three arguments as described in the preceding paragraph made by the third respondent.

Broadening the concept of 'impracticability'

11. We note that the third respondent is concerned that the tentative agenda decision might lead to broadening the circumstances in which the concept of 'impracticability' applies. We note that IFRS 10 is correct to use the term 'impracticability' in the same way as it is in IAS 8. This helps reduce the risk of confusion with stakeholders wondering if it might mean something different in the two standards. Paragraph C4A of IFRS 10 is as follows. (emphasis added):

> C4A If measuring the investee's assets, liabilities and non-controlling interests in accordance with paragraph C4(a) or (b) is impracticable **(as defined in IAS 8)**, an investor shall:
>
> (a) …

12. We think that the third respondent refers to current practice with respect to the application of the term 'impracticability'. We think that we are not making an interpretation of the term 'impracticability' in this agenda decision. We think that we are making appropriate reference to the 'impracticability' guidance in IFRS 10.

Circumstances involving borrowing costs and impairment testing

13. As for the second argument of the third respondent, we think that it is no different from the view expressed in the original submission. In the original submission, the submitter raised the issue about applying IFRS 10 and IFRS 11 to the cases of impairment, borrowing cost and foreign exchange. We think that the tentative

agenda decision addresses these issues, by clarifying that 'impracticability' as described in the transition requirements of IFRS 10 also includes 'impracticability' resulting from applying other Standards (ie Standards relating to impairment, borrowing cost and foreign exchange).

14. Consequently, we think that this argument has already been considered by the Interpretations Committee.

Difference between IFRS 11 and IAS 31

15. The third respondent argued that the difference in the definition of joint control between IFRS 11 and IAS 31could result in different assessment of whether an investor has joint control of a joint arrangement when first applying IFRS 11. In particular, it argued that it is necessary to consider the impact on such assessment resulting from the difference between the term 'strategic financial and operating decisions' in IAS 31 and the term 'relevant activities' in IFRS 11.

16. We observe that the definition of joint control in IFRS 11 and IAS 31 is as follows (emphasis added).

> IAS 31: *Joint control* is 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).

> IFRS 11: *Joint control* is 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.

17. We think that the change of the term from 'strategic financial and operating decisions' to 'relevant activities' did not result from reconsidering the concept of 'joint control' as defined in IAS 31, judging from the description in paragraph BC21 of IFRS 11.

BC21 **The Board did not reconsider the concept of 'joint control' as defined in IAS 31 or in ED 9 (ie the requirement of unanimous consent for the decisions that give the parties control of an arrangement).** However, the definition of 'joint control' in the IFRS is different from those in IAS 31 and ED 9. The reason for the change is to align the definition of 'joint control' with the definition of 'control' in IFRS 10. IFRS 11 directs parties to an arrangement to assess first whether all the parties, or a group of the parties, control the arrangement collectively, on the basis of the definition of control and corresponding guidance in IFRS 10. Once an entity has concluded that the arrangement is collectively controlled by all the parties, or by a group of the parties, joint control exists only when decisions about the activities that significantly affect the returns of the arrangement (ie the relevant activities) require the unanimous consent of those parties.

18. However, we note that another respondent (KPMG IFRG Limited) also stated that the meaning of the term 'joint control' in IFRS 11 is different from that in IAS 31 because of the new definition of 'control' in IFRS 10. It also mentioned that it has seen circumstances in practice in which the outcome under IFRS 11 is different from that under IAS 31. Nevertheless, it provided drafting suggestions as mentioned in the section 'Comments received' of this paper. Considering its drafting suggestion, we think that an assessment of whether an investor has joint control of a joint arrangement under IFRS 11 would in most cases result in the same outcome as the assessment under IAS 31, although there can be some circumstances in which the outcomes under IFRS 11 and under IAS 31 are different.

19. On the basis of the analysis above, we think that the third respondent's argument can be addressed by changing the wording for the tentative agenda decision instead of redeliberating this issue.

Staff recommendation

20. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. The proposed wording of the final agenda decision is shown in Appendix A to this paper.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda? 2. Does the Interpretations Committee have any comments on the proposed wording in Appendix A for the final agenda decision?

Appendix A—Proposed wording for final agenda decision

A1 The proposed wording for the final agenda decision is presented below (new text is underlined and deleted text is struck through).

IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*—Transition provisions in respect of impairment, foreign exchange and borrowing costs

The IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify the transition provisions of IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. The transition provisions of IFRS 10 and IFRS 11 provide exemption~~relief~~ from retrospective application in specific circumstances. However, the submitter observes that IFRS 10 and IFRS 11 do not provide specific exemption~~relief~~ from retrospective application in respect of the application of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 23 *Borrowing Costs* or IAS 36 *Impairment of Assets*. The submitter thinks that retrospective application of these Standards could be problematic when first applying IFRS 10 and IFRS 11.

The Interpretations Committee noted that when IFRS 10 is applied for the first time, it must be applied retrospectively, except for the specific circumstances for which transition provisions are given. It also noted that when IFRS 10 is applied retrospectively, there may be consequential accounting requirements arising from other Standards (such as IAS 21, IAS 23 and IAS 36) that must also be applied retrospectively in order to measure the investee's assets, liabilities and non-controlling interests, as described in paragraph C4 of IFRS 10, or the interest in the investee, as described in paragraph C5 of IFRS 10. The Interpretations Committee observed that if retrospective application of the requirements of IFRS 10 is impracticable because it is impracticable to apply retrospectively the requirements of other Standards, then IFRS 10 (paragraphs C4A and C5A) provides exemption~~relief~~ from retrospective application.

The Interpretations Committee noted that in the definition of joint control, IFRS 11 uses the term ‘relevant activities’ whereas IAS 31 *Interest in Joint Ventures* (2003) uses the term ‘strategic financial and operating decisions’. The Interpretations Committee also noted that within the context of assessing control, the relevant activities of investees under IFRS 10 would be largely the same as significant financial and operating policies under IAS 27 *Consolidated and Separate Financial Statements* (2008). ~~the definition of joint control provided in IFRS 11 is similar to the definition provided in IAS 31 Interest in Joint Ventures (2003~~). It therefore~~ does not~~ thinks that the assessment of whether an investor has joint control of a joint arrangement would lead to the same conclusion~~be different~~ under IFRS 11 and IAS 31 in most cases. As a result, the Interpretations Committee observed that the only changes resulting from the initial application of IFRS 11 would typically be to change
from proportional consolidation to equity accounting or from equity accounting to recognising a share of assets and a share of liabilities. In those situations, IFRS 11 already provides exemption~~relief~~ from retrospective application. The Interpretations Committee concluded that the initial application of IFRS 11 should not raise issues in respect of the application of other Standards in most cases.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing transition requirements of IFRS 10 and IFRS 11, sufficient guidance or exemption~~relief~~ from retrospective application exists and that neither an Interpretation nor an amendment to a Standard was necessary and consequently ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Comment letters received

Accounting Standards Board AcSB CNC Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3322 Fax: (416) 204-3412 www.frascanada.ca

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél: (416) 977-3322 Téléc : (416) 204-3412 www.nifccanada.ca

September 25, 2013

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*—transitional provisions in respect of impairment, foreign exchange and borrowing costs

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the transitional provisions in IFRS 10 and IFRS 11 in respect of impairment, foreign exchange and borrowing costs. This tentative agenda decision was published in the July 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda because entities in many jurisdictions (including Canada) have already commenced applying IFRS 10 and IFRS 11 and many have issued and filed interim financial statements. As a result, any further guidance on the transitional provisions in IFRS 10 and IFRS 11 would be too late for the initial application of these standards.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail pmartin@cpacanada.ca), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-3475 (e-mail kingram@cpacanada.ca).

Yours truly,

Peter Martin

Peter Martin, CPA, CA
Director, Accounting Standards

KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8871
Fax +44 (0)20 7694 8429
mark.vaessen@kpmgifrg.com

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH

Our ref JS/IFRS-IC
Contact Mark Vaessen

24 September 2013

Dear Mr Upton

Tentative agenda decision: IFRS 10 and IFRS 11 – transitional provisions

We appreciate the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision, *IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements—transitional provisions in respect of impairment, foreign exchange and borrowing costs*. We have consulted with, and this letter represents the views of, the KPMG network.

While we agree that the Committee should not take this issue onto its agenda, we have two recommendations regarding the drafting.

We do not agree with the statement that the definition of joint control in IFRS 11 is similar to the old definition in IAS 31 *Interests in Joint Ventures*. By virtue of IFRS 10's new definition of control, the meaning of the term 'joint control' as a whole can be different. In fact, we have seen circumstances in practice in which the outcome is different under IFRS 11. We believe that, instead, it would be fair to say that assessing whether control is held 'jointly' is in practice similar under IFRS 11 when compared to IAS 31 (though not invariably so); this is largely because the relevant activities of such investees tend, in practice, to be the same as significant financial and operating policies under IAS 27 *Consolidated Financial Statements* (see, for example, IFRS 10.B11 and B12).

The last sentence of the second paragraph of the tentative agenda decision refers to qualifying for the 'relief' from retrospective application provided by IFRS 10. We note that the requirements of IFRS 10.C4A are not actually a relief because they require the entity to apply the acquisition method, which can be a costly exercise. Instead, we recommend that the sentence simply refer to applying the exemptions from retrospective application in C4A and C5A.

Please contact Mark Vaessen or Julie Santoro +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Copy: Reinhard Dotzlaw

Deloitte Touche Tohmatsu Limited
2 New Street Square
London EC4A
3BZ United
Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct fax: +44 20 7007 0158
vepoole@deloitte.co.uk

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH

Email: ifric@ifrs.org

25 September 2013

Dear Mr Upton

Tentative Agenda Decision - IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*: Transitional provisions in respect of impairment, foreign exchange and borrowing costs

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of the transitional provisions of IFRS 10 and IFRS 11 as they relate to impairment, foreign exchange and borrowing costs.

Whilst we agree that the impracticability provisions of paragraphs C4A and C4B of IFRS 10 may be considered relevant to this issue, we would also make the following observations in view of the Committee's tentative decision:

- the extent to which these provisions address the issues raised depends upon how the term 'impracticability' is applied, we believe that under IAS 8 *Accounting Policies, Changes in Accounting Policies and Errors* it is currently interpreted as applying only in limited circumstances requiring an assessment that the impact of a change in policy cannot be determined after making every reasonable attempt to do so. The tentative agenda decision may be interpreted as broadening the circumstances in which this concept applies (both in the context of transition to IFRS 10 and IFRS 11 and elsewhere);
- there are circumstances in which commencing or discontinuing consolidation of an investee could have an impact on, for example, the borrowing costs available for capitalisation by other entities within a group or the cash-generating units to which goodwill is allocated for the purposes of impairment testing. The existing transitional provisions of IFRS 10 do not address such circumstances; and
- we do not believe that the statement that "the assessment of whether an investor has joint control of a joint arrangement would in most cases be the same when applying IFRS 11" is helpful as a different assessment could result not only from the incorporation of the changed definition of control in IFRS 10 (as noted in the tentative agenda decision) but also from consideration of

whether decisions about 'relevant activities (rather than, as under IAS 31 *Interests in Joint Ventures*, 'strategic financial and operating decisions') require unanimous consent.

As a result of the above, we believe that these issues may result in initial application differences on transition to IFRS 10 and IFRS 11 for some entities and that additional transitional guidance should be provided.

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