

## STAFF PAPER

July 2014

## IFRS Interpretations Committee Meeting

<b>Project</b>	<b>IFRS 11 <i>Joint Arrangements</i></b>		
<b>Paper topic</b>	Feedback from consultations with IASB members		
<b>CONTACT(S)</b>	Won-Hee Han	whan@ifrs.org	+44 (0)20 7246 6960

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. As mentioned in Agenda Paper 2, at its May 2014 meeting, the IFRS Interpretations Committee (the ‘Interpretations Committee’) requested the staff to consult IASB members on whether its conclusion, at that meeting, on the accounting by a joint operation would be consistent within the *Conceptual Framework for Financial Reporting* and the Standards.<sup>1</sup>
2. In response to this request, the staff held a number of meetings with IASB members in June 2014 to obtain individual views from IASB members. This Agenda Paper summarises the feedback from those consultations.

## Information provided to IASB members

3. We provided IASB members with the summary of the discussion at the May 2014 Interpretations Committee meeting. The summary of the discussion is that:

---

<sup>1</sup> This issue relates to the one addressed by Agenda Paper 2B for the May 2014 Interpretations Committee meeting ([AP2B\\_May IFRIC2014.pdf](#)).

- (a) IFRS 11 *Joint Arrangements* applies only to the accounting by the joint operators and, therefore, the accounting by a joint operation (ie the separate vehicle) would follow (other) Standards;
  - (b) the nature of the reporting entity is important when considering the accounting by a joint operation; and
  - (c) the accounting by a joint operation should reflect the effects of the joint operators' rights and obligations on the accounting for the joint operation's assets and liabilities.
4. With regard to the nature of the reporting entity, we noted the Interpretations Committee's conclusion that:
- (a) company law typically requires a legal entity/separate vehicle to prepare financial statements. Consequently, the reporting entity for the (separate) financial statements would encompass the assets, liabilities, income and expense of that legal entity/separate vehicle;
  - (b) the relationship between the joint operators and the separate vehicle is different from that between a parent entity and its subsidiary; and
  - (c) the relationship between the joint operators and the separate vehicle is also different from that between a company and its branch.
5. As for the effect of the joint operators' rights and obligations, we noted the Interpretations Committee's conclusion that:
- (a) the financial statement items of the joint operators could appear not only on the (separate) financial statements of the joint operators but also on the (separate) financial statements of the separate vehicle, depending on the type of agreements between the joint operators and the separate vehicle;
  - (b) the two sets of the financial statements (ie the joint operators' and the separate vehicle's) portray different reporting entities; and
  - (c) consequently, even if the same financial statement items are presented in more than one reporting entity, it could be appropriate from a financial reporting perspective.

## Questions asked to IASB members

6. We consulted IASB members to obtain their individual views on the questions we asked below. We did not ask them to make any decisions when we consulted them.
7. We asked IASB members whether they thought that reporting the same financial statement items in the (separate) financial statements of more than one reporting entity could be appropriate, from the perspective of each reporting entity.
8. For any IASB members who thought that this (ie reporting the same financial statement items in the (separate) financial statements of more than one reporting entity) could be appropriate, we asked whether they thought that the accounting by the joint operation would be in conflict with any requirements in the Standards including the *Conceptual Framework*.
9. For any IASB members who thought that this (ie reporting the same financial statement items in the (separate) financial statements of more than one reporting entity) would not be appropriate, we asked how the separate vehicle should account for the items from the separate vehicle that are included in the (separate) financial statements of the joint operators.

## Feedback from consultations with IASB members

10. Most IASB members that we consulted thought that the same financial statement items can be reported in more than one reporting entity.
11. Some IASB members commented that it is important to reflect the effects of the joint operators' rights and obligations on the accounting for the joint operation's assets and liabilities, as addressed by the Interpretations Committee. Those IASB members noted that even though the joint operation recognises the amount relating to a same 'physical' asset as the joint operators do, the rights to that asset could be different from each other and thus the asset that the joint operation recognises might be different from the asset that the joint operators recognise.

12. One IASB member thought that it is also important whether the joint operators' rights and obligations are based on contractual agreement with the joint operation or whether it is between the joint operators only; this is because the accounting by the joint operation may differ. For example, if the joint operators agree to use the asset in the joint operation without a contractual agreement with the joint operation, the accounting by the joint operation would not be affected because the contract is between the shareholders of the joint operation only. On the other hand, if the joint operators enter into a lease agreement with the joint operation to use the asset in the joint operation, the accounting by the joint operation would be affected and thus the asset in the joint operation might be derecognised.
13. Some other IASB members thought that it would be useful if the joint operators provide additional disclosure to describe that some of their assets and liabilities reside in the joint operation that is a separate vehicle.
14. We also received the following comments from IASB members; each comment was expressed by one IASB member, respectively:
- (a) if the joint operation recognises the same financial statement items in its (separate) financial statements as the joint operators do, it could be in conflict with the concept of 'joint control' (or 'control'), because the same items could not be controlled by two different reporting entities;
  - (b) some other jurisdictions that require separate financial statements to be prepared in accordance with IFRS have not raised the same concern<sup>2</sup> about the accounting by the joint operation; and
  - (c) the stakeholders' concern could be addressed by considering a narrow-scope amendment to allow the joint operators to account for the items in their separate financial statements in accordance with IAS 27 *Separate Financial Statements*.
15. We think that the feedback from consultations with IASB members on the issue about the accounting by the joint operation is consistent with the

---

<sup>2</sup> A jurisdiction that requires separate financial statements to be prepared in accordance with IFRS had raised a concern to us about possibility of double counting of income for tax purposes.

discussions at previous Interpretations Committee meeting. We therefore continue to think that this issue would not cause practical concern in terms of a financial reporting perspective, despite a concern raised by some jurisdictions about the accounting for income tax purposes.

16. Consequently, we recommend that Interpretations Committee does not take the issue of how to prepare the (separate) financial statements of a joint operation (ie separate vehicle), which was raised in Agenda Paper 2B for the May 2014 meeting, onto its agenda.

#### Questions for the Interpretations Committee

1. In the light of this feedback, does the Interpretations Committee have any questions or comments on the feedback from our consultations with IASB members?
2. Does the Interpretations Committee agree that the issue of how to prepare the (separate) financial statements of a joint operation (ie separate vehicle), which was raised in Agenda Paper 2B for the May 2014 meeting, should not be taken onto its agenda?