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Berlin, 20 January 2015

United Kingdom

Dear Wayne,

IFRS IC's tentative agenda decisions in its November 2014 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IFRS IC's tentative agenda decisions regarding several issues of IFRS 11 *Joint Arrangements* and two issues of IFRS 10 *Consolidated Financial Statements*, published in the November 2014 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President



Appendix - Comments on recent tentative agenda decisions

IFRS 11 - Several issues

We appreciate and support the substance of the IFRS IC's tentative agenda decisions and the clarifications they comprise. However, we have concerns about not developing any formal clarification of the standard, but declaring that sufficient guidance would exist and neither a clarification nor an interpretation is needed.

In our view, the IFRS IC's tentative agenda decisions are an important clarification of the underlying principles of IFRS 11 and are crucial to the application of IFRS 11. Therefore, we believe that merely publishing these clarifications as (tentative) agenda decisions would not be appropriate to the importance of these clarifications.

Thus, we urge the IFRS IC to hold onto its views, but to revise the tentative agenda decision by proposing a narrow-scope amendment which would add guidance to IFRS 11, based on the wording of the current tentative agenda decisions. Only if this is not deemed feasible, we would encourage the IFRS IC to publish the clarifications as agenda decisions, but in this case to also earmark these issues for future due process steps, i.e. the post-implementation review of IFRS 11.

IFRS 10 - Control of a structured entity by an operating lessee and IFRS 10 - Control of a structured entity by a junior lender

The November 2014 *IFRIC Update* states that the IFRS IC had not received any evidence that there was diversity in the application of IFRS 10 on these issues.

As communicated to the technical staff in their outreach on these issues, we observed that these transactions are common in Germany and that we see diversity in practice. As we think that IFRS 10 is lacking clarity, we would welcome additional guidance and would therefore appreciate further elaboration of these issues.

Roger Harrington

Vice President & Chief Accounting Officer

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14 January 2015

IFRS Interpretations Committee
30 Cannon Street
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[Submitted via e-mail to ifric@ifrs.org](mailto:harric@bp.com)

Dear Sir or Madam,

IFRS Interpretations Committee tentative agenda decisions on IFRS 11 *Joint Arrangements* - November 2014

Whilst it is not generally our practice to comment on the agenda decisions of the IFRS Interpretations Committee, we do, in this instance, wish to comment on the tentative agenda decisions at its November meeting in relation to IFRS 11 *Joint Arrangements*.

We believe that, in explaining the tentative agenda decisions not to add certain of these issues to the Interpretations Committee's agenda, the Interpretations Committee has made significant interpretations of the Standard. We do not agree, therefore, with the Interpretations Committee's decision not to add certain of these issues to its agenda as those 'interpretations' will not form part of any published Standard or Interpretation. Whilst we agree with some of the Interpretations Committee's analyses and conclusions, for certain items, particularly regarding "the assessment of 'other facts and circumstances'" and "application of 'other facts and circumstances' to specific fact patterns", we do not agree.

We further believe that the reasons provided for rejection by the Interpretations Committee regarding the assessment and application of 'other facts and circumstances' could be interpreted as requiring a 'legal form over substance' approach to accounting for joint arrangements, similar to that followed under IAS 31 *Interests in Joint Ventures*, which, in our view, is not consistent with the requirements of IFRS 11 B29-B32. We do not believe that such an approach is appropriate.

In particular, we highlight the following agenda items in relation to IFRS 11 *Joint Arrangements* - Classification of joint arrangements where we believe significant interpretations of the standard are being made which we do not agree with:

- The assessment of 'other facts and circumstances'
 - We believe that the design and purpose of a joint arrangement, the entity's business needs and the entity's past practices are all important factors in determining the classification of a joint arrangement because they indicate whether, in practice, the parties will be substantially the only source of cash flows received by the joint arrangement. We do not agree that the assessment of 'other facts and circumstances' should consider only facts and circumstances which create enforceable rights and obligations.

Ⓒ Application of other facts and circumstances to specific fact patterns

- We believe that whether the pricing of the output produced by a joint arrangement is at cost or at market price can be structured in different ways by the parties to that joint arrangement with limited substantive effect on either the parties or the joint arrangement and it should not, therefore, necessarily be relevant to its classification. Furthermore, the nature of the output (fungible or

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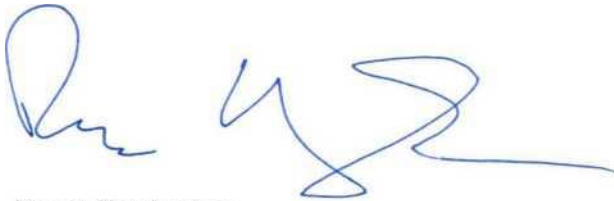
bespoke) could be a strong indicator that the parties are substantially the only source of cash flows contributing to the continuity of the operations.

© Consideration of two joint arrangements with apparently similar features that are classified differently

- The Interpretations Committee noted that IFRS 11 could lead to two joint arrangements being classified differently if one is structured through a separate vehicle and the other is not, but in other respects they have apparently similar features. This appears to represent a legal form over substance approach.

If you wish to discuss any of the comments in this letter, we would be happy to do so. Please do not hesitate to contact myself or John Marshall (john.marshall@uk.bp.com).

Yours faithfully



Roger Harrington

Wayne Upton
Chairman
IFRS Interpretations Committee
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20 January 2015

Dear Mr Upton

Tentative agenda decisions - IFRS 11 *Joint Arrangements*

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decisions not to take onto the Committee's agenda several issues on the application of IFRS 11 *Joint Arrangements*, namely:

- how an assessment of 'other facts and circumstances' should be performed in determining the classification of a joint arrangement;
- the application of that assessment to four specific fact patterns;
- the circumstance in which two joint arrangements would be classified differently when they have similar features apart from the fact that one is structured through a separate vehicle that confers separation between the parties and the separate vehicle and the other is not;
- the recognition of revenue by a joint operator in relation to output purchased from the joint operation by the parties to it;
- the accounting treatment when the joint operator's share of output purchased differs from its share of ownership of the joint operation;
- the accounting in the separate financial statements of a joint operator; and
- the accounting by a joint operation that is a separate vehicle in its own financial statements.

In general, we agree with the Interpretations Committee's decision not to add these items onto its agenda for the reasons set out in the tentative agenda decisions.

In respect of the tentative agenda decision on the accounting treatment when the joint operator's share of output purchased differs from its share of ownership of the joint operation, we agree with the analysis that an approach should be adopted that results in an appropriate reflection of the economic share of each party in the joint operation. However, in the absence of any guidance in IFRS 11 and given the related issues arising (for example, how to address any difference between ownership interest and share of assets and liabilities on acquisition of an interest in a joint operation) we do not agree with a conclusion that sufficient guidance exists. We believe that there is diversity in practice on the accounting for such

arrangements that, therefore, standard-setting activity is required in this area and recommend that the Committee refer the issue to the IASB for further consideration.

In addition, we note the following points on the wording of other tentative agenda decisions.

- Under 'nature of output', the tentative agenda decision on application of the assessment of 'other facts and circumstances' to specific fact patterns refers to the assessment of whether there is an 'obligation for the liabilities' focusing on the existence of cash flows flowing between the parties and the joint operation. We recommend that this wording be modified to acknowledge that such an obligation can also exist when the parties make payments directly to the counterparties of the joint operation's liabilities.
- The tentative agenda decision on the accounting by a joint operation that is a separate vehicle in its own financial statements includes the statement that "it will be important to reflect the effects of the joint operators' rights and obligations in the accounting for the joint operation's assets and liabilities." We believe that a reference to "contractual arrangements with the joint operators" would more clearly illustrate that, for example, a finance lease agreement with a joint operator could lead to derecognition of the leased asset and recognition of a receivable by the joint operation.

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

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United Kingdom

20 January 2015

Dear Wayne,

RE: IFRS 11 *Joint Arrangements*: Various implementation issues - tentative agenda decisions

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing in response to the IFRS Interpretations Committee tentative agenda decisions on IFRS 11 *Joint Arrangements* published in the November 2014 edition of the *IFRIC Update*.

We support the Interpretations Committee's efforts to publish a summary of the discussions relating to IFRS 11 through a series of separate agenda decisions. Given the significant practical difficulties reported by constituents, we believe that this information will provide useful educational material that illustrates aspects of the application of IFRS

11.

However, we do not agree with the decision to exclude the issue relating to 'project entities' (Agenda Decision C in agenda paper 2 of the November 2014 Interpretations Committee meeting) from the published series of agenda decisions. In our view, the fact pattern relating to 'project entities' is not unique to a specific industry. We therefore do not agree that trying to explain the issue in an agenda decision could create more uncertainty than it could address. On the contrary, similar to the other issues on the application of IFRS 11, we believe that communicating a summary of the Interpretations Committee's discussion on the classification of 'project entities' would provide constituents with useful educational material that can be applied to similar situations. We would therefore recommend that the wording of the agenda decision be described in a generic (non-specific) way so that constituents could benefit from the discussion and apply it to a broader range of similar situations.

If you would like to discuss our comments further, please do not hesitate to contact Isabel Batista, Robert Stojek or me.

Yours sincerely,



Roger Marshall
Acting President of EFRAFG

CC: Didier Millerot, European Commission, Directorate General Financial Stability,
Financial Services and Capital Markets Union, Head of Unit, Accounting and
Financial Reporting
Frangoise Flores, EFRAG TEG Chairman

Wayne Upton
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Ref: IFRS Interpretations Committee's tentative agenda decisions on IFRS 11
Joint Arrangements

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the November 2014 IFRIC Update of a series of tentative agenda decisions related to the implementation issues arising from the application of IFRS 11 *Joint Arrangements*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its agenda multiple requests for clarification in respect to some requirements of IFRS 11. These requirements concern:

- classification of joint arrangements - the assessment and application of 'other facts and circumstances' and consideration of two joint arrangements with apparently similar features that are classified differently:
- accounting by the joint operator - recognition of revenue by a joint operator, the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation, accounting by the joint operation that is a separate vehicle in its financial statements; and
- accounting by the joint operator in its separate financial statements.

While ESMA agrees with the decision of the IFRS IC that, in light of the existing IFRS requirements, sufficient guidance exists and that neither an interpretation nor an amendment to the Standard are necessary, we also believe that the publication of these agenda decisions is useful for preparers, users, auditors and regulators and will contribute to the consistent understanding and application of IFRS 11.

ESMA particularly welcomes that the IFRS IC has included in the tentative agenda decisions the judgement applied in carrying out the assessment of the fact pattern in the submission as this can be used in a broader set of circumstances when applying the requirements of IFRS



11. ESMA considers that these decisions add clarifications, namely on the distinction between a joint operation and a joint venture and how 'other facts and circumstances' should be understood.

However, ESMA is concerned that the IFRS IC decided not to publish, as a tentative agenda decision, its analysis on the classification of the specific case in the real estate industry (referred also as the 'project entity'). This analysis was proposed to be published by the IFRS IC staff as Tentative Agenda Decision C in the Agenda Paper 2, discussed in the November 2014 IFRS IC meeting.

While the conclusion reached in this case can also be drawn from reading the tentative agenda decisions published in the November 2014 IFRIC Update, ESMA nevertheless believes that this tentative agenda decision can be useful for preparers, users, auditors and regulators.

Moreover, from a process point of view, we would like to point out that [part of] this analysis was included in the 'Items on the current agenda' of the July 2014 IFRIC Update. ESMA believes that this item, stemming from a submission to the IFRS IC, requires the same level of finalisation through a tentative agenda decision as the other submissions received. Non-publication of this agenda decision might create confusion between different levels of guidance being provided by the IFRS IC.

Therefore, ESMA urges the IFRS IC to reconsider its decision and report its conclusions on this submission as an Agenda Decision.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S Maijor', written over a light blue horizontal line.

Steven Maijor
Chair

European Securities and Markets Authority

International Financial Reporting Standards Interpretations

20 January 2015

Committee

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative agenda decisions - *IFRS 11* Joint Arrangements

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the tentative agenda decisions on IFRS 11 *Joint Arrangements* (the standard) of the IFRS Interpretations Committee (the Committee) published in the November 2014 IFRIC Update.

We support the Committee's efforts to summarise and document its conclusions and observations on the IFRS 11 issues that were deliberated by the Committee during the previous year. We believe most of the tentative agenda decisions provide helpful clarifications, which will assist the preparers in addressing a number of implementation issues relating to IFRS 11 and result in a more consistent application of the standard.

However, we do not agree that, absent the clarifications provided in most of the tentative agenda decisions, sufficient guidance exists in IFRS 11 for the issues considered, as stated at the end of each of those tentative agenda decisions. We are aware of a number of issues in practice in the areas considered and we note diversity in the conclusions that entities have reached. Some of the conclusions reached in practice that seemed valid under the existing guidance in IFRS 11, may now have to be revised based on the clarifications provided in tentative agenda decisions.

We are also concerned that clarifications provided in some of the tentative agenda decisions will not be sufficient to address the underlying issues. For the reasons outlined in the Appendix to this letter, we have particular concerns with respect to the following two issues:

- Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation
- Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements

Due to the complex nature of the two issues above, we do not believe they can be addressed by means of an agenda decision, but should either be added to the Committee's agenda or escalated to the International Accounting Standards Board (the Board) for further consideration.

Due to the fact that there are other issues with IFRS 11 which still remain unclear, we believe the tentative agenda decisions, if finalised, would only provide piecemeal guidance for constituents. Since IFRS 11 became applicable, we are aware of a number of practical implementation issues and the number of submissions to the Committee reaffirms this fact. The high volume of issues calls into question the practical application of the standard.

Therefore, we recommend that the Board considers undertaking a more comprehensive review project on the principles in and implementation of IFRS 11. We believe that this could be done in the form of a Post-implementation Review (PiR). However, if the Board decides to implement such a project in the form of a PiR, we believe the timing of the PiR of IFRS 11¹ should be brought forward from its originally planned date and commence as soon as possible.

We provide our comments on each of the individual tentative agenda decisions in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas
on +31 99 407 5025

Yours faithfully

Ernst + Young Global Limited

Agenda Paper 2D for the July 2014 meeting of the Committee stated that the Post-implementation Review of

Appendix - Comments on the individual tentative agenda decisions

We do not agree that, absent the clarifications provided in most of the tentative agenda decisions, sufficient guidance exists in IFRS 11 for the issues considered, as stated at the end of each of those tentative agenda decisions. We are aware of a number of issues in practice in the areas considered and we note diversity in the conclusions that entities have reached. Some of the conclusions reached in practice that seemed valid under the existing guidance in IFRS 11, may now have to be revised based on the clarifications provided in tentative agenda decisions.

We provide our comments on each of the individual tentative agenda decisions below. We reference our responses to the published tentative agenda decisions per the November 2014 IFRIC Update, as follows:

- A. Classification of joint arrangements: the assessment of 'other facts and circumstances'
- B. Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns
- C. Classification of joint arrangements: consideration of two joint arrangements with apparently similar features that are classified differently
- D. Accounting by the joint operator: recognition of revenue by a joint operator
- E. Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation
- F. Accounting in separate financial statements: accounting by the joint operator in its separate financial statements
- G. Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements

We also include comments on the issue of "Classification of joint arrangements: consideration of an industry-specific case", which was not published along with the other tentative agenda decisions. We refer to this discussion as point H.

A. Classification of joint arrangements: the assessment of 'other facts and circumstances'

- We agree with the discussion in the tentative agenda decision. We support a clarification that the assessment of other facts and circumstances should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities. We believe the clarification is helpful and will result in a more consistent application of the standard.
- However, we believe it would be helpful if the Committee addresses in the agenda decision, the period over which the enforceable rights need to exist in order to receive joint operation classification. For example, should an entity consider:

- The period over which the related financing of the arrangement is expected to be repaid
- The period over which the underlying assets are expected to be used by the joint arrangement

Or

- The entire life of the joint arrangement?

It would also be helpful if the Committee clarifies in the tentative agenda decision, whether a party to a joint arrangement would need to reassess the classification of a joint arrangement after such a period lapses.

- The tentative agenda decision states that the assessment of other facts and

circumstances should not consider the purpose and design of the joint arrangement. Rather, the assessment should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities. We agree with the Committee that this clarification is appropriate based on the current requirements of IFRS 11. However, we are also concerned that the following questions remain unclear:

- *Does a constructive obligation lead to enforceable rights and obligations?*

Consider the following example:

Two partners set up a joint arrangement structured through a separate vehicle that produces specialised products that the two partners could not obtain anywhere else and that could not be sold by the joint arrangement to anyone else other than the partners of the joint arrangement. The purpose and design of the joint arrangement is such that all of the output is purchased by the partners and there is a constructive obligation to provide the joint arrangement with sufficient cash flows so that it can pay its obligations. However, the contract that enforces the acquisition of the output is only signed for a one-year period each year.

Some may read the wording of the tentative agenda decision to suggest that constructive obligations should not be considered for the purpose of classification of joint arrangements. Was this what the Committee intended?

- *Could the purpose and design of a joint arrangement potentially create enforceable rights to the assets and obligations for the liabilities that should be considered for the purpose of the assessment of other facts and circumstances?*

Consider the example where the purpose and design of a joint arrangement structured through a separate vehicle is to sell all of the bespoke output to the parties, but there is no legal arrangement in relation thereto. If there is no legally binding obligation in place, could the purpose and design then potentially create

We understand that the two questions outlined above are outside the scope of the issue considered by the Committee in developing this tentative agenda decision. However, we are aware of diversity in practice and recommend that the Committee escalate the issue to the Board for further consideration as a part of a more comprehensive review project on IFRS 11.

B. Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns

B.1. Output sold at a market price

- We agree with the discussion in the tentative agenda decision.

B.2. Financing from a third party

- We agree with the discussion in the tentative agenda decision.

B.3. Nature of output (i.e. fungible or bespoke output)

- We generally agree with the discussion in the tentative agenda decision. However, production of bespoke output may give rise to a constructive obligation, as discussed in A, above.

B. 4. Determining the basis for 'substantially all of the output'

- We generally agree with the discussion in the tentative agenda decision.
- However, the following sentence in the tentative agenda decision is not clear:

"The Interpretations Committee therefore noted that the economic benefits of the assets of the joint arrangement would relate to the cash flows arising from the parties' rights and *obligations for the assets*". (emphasis added).

We do not understand what is meant by the term 'obligations for the assets' and recommend that the Committee clarifies it.

C. Classification of joint arrangements: consideration of two joint arrangements with apparently similar features that are classified differently

- We agree with the discussion in the tentative agenda decision.

D. Accounting by the joint operator: recognition of revenue by a joint operator

- We generally agree with the discussion in the tentative agenda decision.
- However, we are concerned that the last sentence in the fourth paragraph is not clear, as follows:

"Accordingly, paragraph 20(d) of IFRS 11 would result in the recognition of revenue by a joint operator only when the joint operation sells its output to third parties. *For this purpose, third parties do not include other parties to the joint operation.*" (emphasis added).

The term 'other parties to the joint operation' is not defined in IFRS. We presume the Committee refers to other joint operators. However, the current wording might also be read as referring to entities that participate in a joint operation, but do not have joint control over that joint operation. If so, it is unclear why such entities are excluded from the notion of 'third parties'. We therefore recommend that the Committee clarifies the sentence.

E. Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation

- We do not find the current wording of the tentative agenda decision very helpful due to the concerns noted below.
- The Committee explains that there may be "other elements of the arrangement" that explain the disparity between the joint operator's share of output purchased and its share of ownership interest in the joint operation. We agree with this statement. However, we believe it would be more helpful if the Committee could provide examples of these other elements and how those elements would impact the accounting by the joint operator.

For instance, we are aware of a fact pattern where joint operators agree to take different shares of the output from the joint operation in different accounting periods but the overall share of the output taken by the operators is the same by the end of the life of the arrangement. There is no guidance in IFRS on how to account for such arrangements and, as such, we expect diversity in practice in accounting for such joint operations.

- There may also be situations where such "other elements of the arrangement" do not exist or do not lead to assets/liabilities being recognised under IFRS. We have seen a fact pattern where the disparity between the joint operator's share of output purchased and its share of ownership interest in the joint operation is due to elements that exist outside the joint arrangement itself (i.e., there is a value transfer going on because of other arrangements between the joint operators). In cases such as these, further guidance is needed.
- It would be helpful if the Committee provided additional guidance on what factors/indicators need to be considered in deciding on the appropriate accounting treatment.

For example, the Committee could clarify that, for the fact pattern considered in the tentative agenda decision (i.e. joint arrangement presented in Example 5 of the

there are no other factors indicating that the recognition should be based on the joint operator's share of ownership interest, it would be more appropriate for the joint operators to account for their assets, liabilities, revenue and expenses based on their share of output purchased.

Such guidance could be provided either by including a list of factors/indicators to consider or by providing an illustrative example.

- The fourth paragraph of the tentative agenda decision states, "A key issue that arises in this situation is over what time horizon should the share of output be considered". However, this aspect is not further explained; it remains unclear why and to what extent the time horizon should be considered.
- As described in the examples above, we have seen diversity in practice where the joint operator's share of output purchased differs from its share of the ownership interest. We believe the current wording of the tentative agenda decision provides some insight, however, it is not sufficient to address the issue. We therefore recommend the Committee either add this issue to its agenda or escalate it to the Board for further consideration.

F. Accounting in separate financial statements: accounting by the joint operator in its separate financial statements

- We agree with the discussion in the tentative agenda decision.

G. Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements

- While we agree with the statement that IFRS 11 applies only to the accounting by the joint operators and not to the accounting by the separate vehicle that is a joint operation, we do not find the current wording of the tentative agenda decision very helpful in addressing the practice issue.
- Furthermore, we observe that the uncertainty around accounting by the joint operation that is a separate vehicle in its financial statements opens up the fundamental question of the definition of the reporting entity.

The wording of the tentative agenda decision might be read to suggest that those assets and liabilities of the joint operation, for which the joint operators have direct rights and obligations, would not necessarily be reflected in the financial statements of the joint operation itself. This seems to suggest a fairly narrow view of what the reporting entity is. Although we can see some arguments in support of this view, we also believe that it would be useful for the joint operators to present a set of financial statements that reflects all the assets and the liabilities that are subject to joint control under the joint arrangement.

We understand that the definition of the reporting entity is not specifically an IFRS 11 issue. However, we are aware that this is a difficult area in practice and we recommend that the Committee escalates the issue to the Board for further consideration.

H. Classification of joint arrangements: consideration of an industry-specific case (not published in the November 2014 IFRIC Update)

- Agenda Paper 2 at the November IFRIC meeting contained proposed wording for Agenda Decision C. However, the Committee decided not to publish this agenda decision.

Although we understand the Committee's concerns about providing an analysis on an industry-specific case, we also believe the analysis by the staff, included in this proposed tentative agenda decision, contained a very useful discussion on identifying the primary obligor and which party has the rights to the assets and the obligations for the liabilities of a joint arrangement. We therefore recommend that the Committee retains this analysis by including it as part of one of the other agenda decisions to be published.

In particular, we refer to the following analysis by the staff presented in Appendix A to Agenda Paper 2 at the November IFRIC meeting:

"The Interpretations Committee observed, among other things, that the joint arrangement (that is the separate vehicle) is still a primary obligor regardless of the description in the performance guarantee of the parties as 'primary obligors and not merely as sureties'. Furthermore, the Interpretations Committee observed that the assets of the joint arrangement, being primarily accounts receivable from the customer, are assets to which the rights may be shared by both the joint arrangement and the parties to the joint arrangement because the joint arrangement and the parties are in the same position with regard to providing the product or service to the customer.

Consequently, when considering the economic benefits of the assets in the joint arrangement, the parties to the joint arrangement would not have 'substantially all' the economic benefits of those assets even though they may have 'some' of the economic benefits. This is because the parties share the rights to the accounts receivable with the joint arrangement, which means that the parties have 'some of the rights to the accounts receivable' but not 'substantially all' of the rights to the accounts receivable.

The Interpretations Committee therefore concluded that the joint arrangement would not be classified as a joint operation because the parties have only some of the rights to the economic benefits of the assets of the joint arrangement rather than substantially all of the rights to the economic benefits of those assets."



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Mr Wayne Upton
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Our ref MV/288
Contact Mark Vaessen

20 January 2015

Dear Mr Upton

Tentative agenda decisions: IFRS 11 application issues

We appreciate the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decisions issued in the IFRIC Update November 2014:

- *IFRS 11 Joint Arrangements—Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns; and*
- *IFRS 11 Joint Arrangements—Accounting by the joint operator: recognition of revenue by a joint operator.*

We have consulted with, and this letter represents the views of, the KPMG network.

We have concerns that the wording in these tentative agenda decisions could be interpreted in a manner not consistent with the current requirements under IFRS 11.

Application of 'other facts and circumstances' to specific fact patterns - output sold at market price

In addressing the potential classification of a joint arrangement as a joint operation, the tentative agenda decision notes that the parties would need to consider whether the cash flows provided by the parties to the arrangement through the purchase of the output at market price would be sufficient to enable the arrangement to settle its liabilities on a continuous basis.

This may imply that an assessment is required of how likely it is that the cash flows from the purchase of output by the joint arrangement parties will be sufficient to repay the existing and future liabilities. It is not clear that this is the intention of the IFRS Interpretations Committee.

An assessment of sufficiency is not part of the current requirements under IFRS 11, which are about exclusivity. IFRS 11.B32 indicates that the 'other facts and circumstances' test should consider whether the parties are substantially the only source of cash flow contributing to the continuity of the operations of the arrangement. Therefore, we believe that classification of the

arrangement as a joint operation is not precluded even if the cash flow from the purchase of the output can potentially generate insufficient cash flows to cover the arrangement's liabilities - the parties can either voluntarily advance more funding to the arrangement or the operations will not continue - i.e. it is not a case of dual sources of cash contributing to the continuity of the operations (the parties and other sources).

Application of 'other facts and circumstances' to specific fact patterns - financing from a third party

We agree with the agenda decision that the repayment of third party financing does not preclude classification as a joint operation.

However, the tentative decision appears narrowly drafted to refer only to repayment, whereas the issue, as shared earlier in the draft and in the Staff Paper, is third party finance more generally. We believe that the decision should address that broader circumstance, i.e. including when the arrangement has the facility to draw down such finance, and note that the Staff Paper was accepting of this (March 2014, agenda reference 5A, paragraphs 51 and 52).

Accounting by the joint operator - recognition of revenue by a joint operator

The tentative agenda decision indicates that a joint operator should not recognise revenue from the sale of output by the joint operation to the parties of the arrangement. We agree with this conclusion in most circumstances.

However, when the purchase of output is not proportionate and at market price, we believe that it is appropriate for the party taking proportionally less output to recognise the rest of its ownership share as a sale to the other party to the arrangement. This is because in that case, that party is in substance selling some of its output to the other party of the arrangement, which is considered a third party to the selling party.

The tentative agenda decision is not clear on this respect, and we are concerned that some may read the decision as setting out a blanket rule that would be applicable in any circumstance.

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

Yours sincerely



KPMG IFRG Limited

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IFRS Interpretations Committee
30 Cannon Street
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12 January 2015

Re: Interpretations Committee tentative agenda decisions

Dear Wayne,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ('IFRS IC') tentative agenda decision issued in November 2014. IFRS IC has decided not to include on its agenda the following issues regarding IFRS 11:

- *IFRS 11 Joint Arrangements—Classification of joint arrangements: the assessment of 'other facts and circumstances'*
- *IFRS 11 Joint Arrangements—Classification of joint arrangements: application of 'other facts and circumstances' to specific fact patterns*
- *IFRS 11 Joint Arrangements—Classification of joint arrangements: consideration of two joint arrangements with similar features that are classified differently*
- *IFRS 11 Joint Arrangements—Accounting by the joint operator: recognition of revenue by a joint operator*
- *IFRS 11 Joint Arrangements—Accounting by the joint operator: the accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation*
- *IFRS 11 Joint Arrangements—Accounting in separate financial statements: accounting by the joint operator in its separate financial statements*
- *IFRS 11 Joint Arrangements—Accounting by the joint operation: accounting by the joint operation that is a separate vehicle in its financial statements*

OIC agrees with the technical conclusions reached by IFRS IC on these issues.

With regard to the tentative decision: *IFRS 11 Joint Arrangements - Classification of joint arrangements: the assessment of 'other facts and circumstances'* OIC agrees that the assessment of other facts and circumstances should focus on whether those facts and circumstances create enforceable rights to assets and obligations for liabilities. However we disagree with the IFRS IC conclusion that *"sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary"*.

We think that the impact on financial statements of this decision will be significant, because as a consequence of this decision the assessment of other facts and circumstances would lead to most joint arrangements being classified as joint ventures (ie only few joint arrangements will be classified as joint operations, because other facts and circumstances give the parties enforceable rights to assets and obligations for the liabilities of the arrangement). Consequently, we think that this issue should be clarified amending the Standard for example by Annual Improvements Process.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Caso
(Chairman)