IFRS

STAFF PAPER

January 2016

IFRS Interpretations Committee Meeting

Project	IFRS 11 *Joint Arrangements*		
Paper topic	Remeasurement of previously held interests—obtaining control and joint control of a joint operation that is not a business		
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Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') discussed whether previously held/ retained interests in the assets and liabilities of a joint operation should be remeasured in several transactions for which there is a lack of guidance and/or diversity of views in accounting for previously held/ retained interests.

2. The Interpretations Committee discussed a transaction in which an entity obtains control or joint control of a joint operation that does **not** meet the definition of a business (as defined in IFRS 3 *Business Combinations*). The Interpretations Committee noted that paragraph 2(b) of IFRS 3 provides guidance on the typical accounting for an asset acquisition in which the asset or group of assets do not meet the definition of a business. The Interpretations Committee also observed that it was not aware of significant diversity in practice and therefore decided to issue a tentative agenda decision outlining its reasons for not adding the accounting for these transactions to its agenda.

3. The purpose of this paper is to provide the Interpretations Committee with an analysis of the comments received on the tentative agenda decision and to ask the Interpretations Committee if it agrees with the staff recommendation to finalise the agenda decision.

Comment letter summary

4. We received three comment letters, which have been reproduced in Appendix B to this agenda paper.[1]

5. Two respondents (Deloitte and Mazars) agree with the Interpretations Committee's decision not to add this item onto its agenda, for the reasons set out in the tentative agenda decision.

6. One respondent (Ernst & Young Global Limited) does not agree with the conclusion reached in the tentative agenda decision. The respondent does not think that paragraph 2(b) of IFRS 3 provides sufficient guidance for these transactions. The respondent thinks that the guidance in paragraph 2(b) of IFRS 3 applies only to the assets acquired and liabilities assumed in the transaction and does not apply to previously held interests. Consequently, the respondent thinks that a reference to paragraph 2(b) in the final agenda decision may be confusing to constituents and may result in additional diversity.

7. This respondent recommends conducting further outreach to gather a broader range of information about the facts and circumstances relating to these transactions, in order to understand the extent of diversity in practice before determining the best course of action in providing guidance for these transactions.

8. Additionally, one respondent (Mazars) who agreed with the Interpretations Committee's decision raised a concern about the application of paragraph 23 of IFRS 11. In their view, the accounting by a party to a joint operation for its rights to the assets and obligations for the liabilities of the joint operation in accordance with paragraph 23 of IFRS 11 could be considered to be inconsistent with the outcome of applying the forthcoming new *Leases* Standard to similar contracts.

9. We have analysed the concerns raised by the respondents in the following section.

[1] The comment letter received from Mazars included comments on several tentative agenda decisions published in the IFRIC Update from September 2015. In Appendix B, we have included the excerpt from the letter that is relevant to this tentative agenda decision.

Staff analysis

Does the guidance in paragraph 2(b) of IFRS 3 apply to previously held interests?

10. We do not agree with the respondent (Ernst & Young Global Limited) that the guidance in paragraph 2(b) of IFRS 3 applies only to the assets acquired and liabilities assumed in the transaction and does not apply to previously held interests.

11. Paragraph 2(b) of IFRS 3 states:

> … in such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 *Intangible Assets*) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

12. Consistent with our previous analysis on this issue (see Agenda Paper 5A and Agenda Paper 5C from the Interpretations Committee meeting in September 2015), we think that paragraph 2(b) of IFRS 3 is clear in specifying that a *cost-based* approach is used in accounting for asset acquisitions. We think that this implies that *previously held interests should not be remeasured*.

Should further outreach be performed?

13. We note that the guidance in IFRS 3 has been applicable for several years. Remeasurement of previously held interests in an asset acquisition has not been raised by constituents in the past. In addition, the fact patterns raised by constituents in the past on this issue relate to joint operations that constitute a business. We are not aware of any significant diversity in practice and do not think that any further outreach is needed on these transactions.

Other comments

14. One respondent noted that, in its view, the accounting by a party to a joint arrangement that has rights for assets and obligations for liabilities of a joint arrangement could be considered to be inconsistent with the outcome of applying the forthcoming new *Leases* Standard to similar contracts.

15. The respondent notes that a party to a joint operation often has rights to a *specified portion* of the output of a specified asset controlled by the joint operation, and would account for its share of assets and liabilities from the joint operation. The respondent thinks that accounting for that right to a portion of the output as an asset could be considered to be inconsistent with the outcome of applying the forthcoming new *Leases* Standard to similar contracts. The new accounting requirements will require a customer to have, among other rights, the right to obtain *substantially all* of the economic benefits from use of an identified asset in order for a contract to contain a lease.

16. We think that the accounting for each arrangement will vary based on the specific facts and circumstances. We do not think that the concern raised by the respondent relates to, and affects the decision on, the transaction being considered as part of the Interpretations Committee's analysis. The respondent has noted that it agrees with the Interpretations Committee's decision not to add the issue onto its agenda and with the rationale expressed in the tentative agenda decision.

Staff recommendation

17. On the basis of our analysis, we recommend confirming the tentative agenda decision as published in the IFRIC update in September 2015 with some minor drafting changes. We have set out the wording for the final agenda decision in Appendix A of this paper for the Interpretations Committee's approval.

Question for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation to finalise the agenda decision as shown in Appendix A?

Appendix A—Finalisation of agenda decision

A1. We proposed the following wording to finalise the agenda decision (new text is underlined and deleted text is struck through)

IFRS 11* Joint Arrangements—*Remeasurement of previously held interests: Various transactions

The Interpretations Committee discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured in the following transactions when the asset or group of assets involved in such transactions do not meet the definition of a business in accordance with IFRS 3 *Business Combinations*:

(a) obtaining control of a joint operation, ~~either from having~~ when the entity previously had joint control of ~~in~~, or was ~~being~~ a party to, ~~a~~ the joint operation before ~~prior to~~ the transaction; and

(b) a change of interests resulting in a party to a joint operation obtaining joint control over the joint operation. The party to the joint operation had rights to the assets and obligations for the liabilities relating to the joint operation before ~~prior to~~ the transaction.

The Interpretations Committee noted that paragraph 2(b) of IFRS 3 provides guidance on the typical accounting for an asset acquisition in which the asset or group of assets do not meet the definition of a business. The Interpretations Committee also observed that it was not aware of significant diversity in practice and therefore ~~[~~decided~~]~~ not to add the accounting for these transactions to its agenda.

Appendix B—Copies of comment letters

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

23 November 2015

Dear Mr Upton

Tentative agenda decision – IFRS 11 *Joint Arrangements*: Remeasurement of previously held interests: Various transactions

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the question of whether previously held interests in the assets and liabilities of a joint operation that does not meet the definition of a business should be remeasured when either control or joint control is obtained.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

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

Building a better working world

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INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
30 Cannon Street
London
EC4M 6XH

30 November 2015

Dear IFRS Interpretations Committee members,

Invitation to comment – *Tentative agenda decisions* – IFRS 11 *Joint Arrangements* - Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) of the IFRS Interpretations Committee (the Committee) published in the September 2015 IFRIC Update.

The Committee discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured in the event that the assets and liabilities acquired do not constitute a business as defined in IFRS 3 *Business Combinations*, in the following circumstances:

(i) Moving from joint control to control of a joint operation
(ii) Moving from being a party to a joint operation to control over the joint operation
(iii) Moving from being a party to a joint operation to having joint control over the joint operation.

We do not agree with the conclusion reached in the TAD that paragraph 2(b) of IFRS 3 provides sufficient guidance for these transactions. Paragraph 2(b) states that:

> '[IFRS 3 does not apply to] the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise <u>the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 *Intangible Assets*) and liabilities assumed</u>. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.' (emphasis added)

From the above, it is clear that paragraph 2(b) refers to measurement of assets and liabilities *acquired* in the transaction. Therefore this paragraph does not give guidance about whether or not to remeasure *previously held interests* in transactions as described in (i) – (iii) above, and referring to paragraph 2(b) in the final Agenda Decision may be confusing to constituents.

Furthermore, the current Tentative Agenda Decision may create additional diversity for the reasons given in the paragraph above. We suggest that the Committee perform outreach to gather a broader range of information about the facts and circumstances relating to these transactions in order to understand the extent of the diversity in practice. Once this has been done, we believe that the Committee will be in a better position to decide what will be the best course of action in providing guidance for these transactions.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +31 88 407 5035.

Yours faithfully

Ernst + Young Global Limited

MAZARS

Mr. Wayne Upton

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, November 23, 2015

RE: IFRS Interpretations Committee tentative agenda decisions, September 2015

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,

Michel Barbet-Massin
Head of Financial Reporting Technical Support

MAZARS

Appendix 6

IFRS 11 – *Joint Arrangements* – Remeasurement of previously held interests: Various transactions (Agenda Papers 5A and 5C)

We agree with the IFRS Interpretations Committee's decision not to add this issue onto its agenda, and with the rationale expressed in the tentative agenda decision.

Nevertheless, we note that the starting point of the Committee's discussion is that an investor can have rights to the assets and obligations for the liabilities relating to a joint operation without participating to the joint control (i.e. without being a joint operator). In that situation, the investors accounts for its rights to the assets and obligations for the liabilities of the joint operation according to IFRS 11 § 20-22 (IFRS 11 § 23).
While we agree with this statement, we would like to put to the Committee's attention that:

- In such a situation, the investor often has right to a specified proportion of the output of a specified asset owned by the joint operation;
- Accounting for that right to a proportion of the output as an asset could be considered inconsistent with the outcome of applying the forthcoming IFRS 16 to similar contracts.