

## STAFF PAPER

December 2015

## REG IASB Meeting

Project	IFRS 11 <i>Joint Arrangements</i> —Remeasurement of previously held interests		
Paper topic	Transition and due process steps followed		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Objective**

1. The objective of this paper is to:
  - (a) confirm the transition requirements of the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*;
  - (b) set out the due process steps that the IASB has taken so far before the balloting of the Exposure Draft of the proposed amendments;
  - (c) to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date; and
  - (d) to ask the IASB to give permission for the staff to begin the balloting process.

**Structure of the paper**

2. The structure of the paper is as follows:
  - (a) background;
  - (b) transition requirements;
  - (c) intention to dissent;
  - (d) comment period;
  - (e) proposed timetable for balloting and publication;

- (f) confirmation of due process steps; and
- (g) Appendix A—Actions taken to meet the due process requirements.

## Background

3. The IFRS Interpretations Committee (‘the Interpretations Committee’) received a request to clarify whether a previously held interest in the assets and liabilities of a joint operation should be remeasured to fair value when an investor’s acquisition of an additional interest results in the investor becoming a joint operator (ie assuming joint control) of the investee.
4. The Interpretations Committee noted that there are other transactions involving previously held interests in which there were different views on whether such interests should be remeasured or not. The Interpretations Committee expanded the scope of its analysis to include some of these other transactions where it was observed that the transactions were widespread and were resulting in diversity in practice.
5. The Interpretations Committee recommended amendments to IFRS 3 and IFRS 11 in the form of annual improvements for the following two transactions:
  - (a) obtaining control of a joint operation, either from having joint control in, or being a party to, the joint operation prior to the transaction; and
  - (b) change of interests resulting in a party to a joint operation obtaining joint control of the joint operation.<sup>1</sup>
6. The IASB discussed and agreed with the recommendations of the Interpretations Committee at its meeting in October 2015. The IASB observed that the proposed amendments should be included with the proposed amendments relating to the *Definition of a Business* project and not as part of the annual improvements cycle.

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<sup>1</sup> For ease of reference, we have used the term ‘party to a joint operation’ throughout the paper to indicate an investment in which a party participates in, but does not have joint control of, a joint operation. The party has rights to the assets and obligations for the liabilities relating to the joint operation. The party therefore accounts for its interests in the arrangement in accordance with the guidance in paragraphs 20–22 of IFRS 11 *Joint Arrangements*.

The IASB also noted that it would consider the transition provisions and due process undertaken at a future meeting.

***Obtaining control of a joint operation, either from having joint control in, or being a party to, a joint operation prior to the transaction***

7. The Interpretations Committee observed that for transactions in which the joint operation meets the definition of a business, the previously held interests should be remeasured at fair value. The Interpretations Committee noted that:
  - (a) the transaction results in a significant economic event ie acquisition of control; and
  - (b) remeasurement of previously held interests is consistent with the fair value measurement requirements of IFRS 3.
8. However, the Interpretations Committee noted that the current wording in paragraphs 41–42 of IFRS 3 requires an entity to remeasure previously held ‘equity interests’. There is a lack of clarity on whether an entity’s interests in a joint operation meet the definition of ‘equity interests’, which has led to divergent views in practice. Consequently, the Interpretations Committee recommended an amendment to IFRS 3 to reflect its conclusions.
9. The IASB agreed with the Interpretations Committee’s conclusion and recommendation to clarify the wording in paragraphs 41-42 of IFRS 3.

***Change of interests resulting in a party to a joint operation obtaining joint control in a joint operation.***

10. The Interpretations Committee observed that for transactions in which the joint operation meets the definition of a business, the previously held interests should not be remeasured when obtaining joint control. The Interpretations Committee noted that:
  - (a) the transaction does not result in a significant economic event; and
  - (b) not requiring remeasurement of previously held interests is consistent with the requirements of IFRS 11, which require an entity to account

for its assets and liabilities relating to its interest in the joint operation in accordance with the applicable Standards.

11. However, the Interpretations Committee noted that the wording in IFRS 11 could be understood to require the remeasurement of previously held interests. Consequently, it recommended an amendment to paragraph B33C of IFRS 11 to reflect its conclusion.
12. The IASB agreed with the Interpretations Committee's conclusion and recommendation to amend IFRS 11.

### Transition requirements

#### ***Obtaining control of a joint operation, either from having joint control in, or being a party to, a joint operation prior to the transaction***

13. The Interpretations Committee recommends that an entity should apply the amendments to business combinations occurring on or after the effective date. Earlier application should be permitted. It recommends this approach for transition, because it observed that for past transactions in which the previously held interests were not remeasured:
  - (a) the application of this guidance on a retrospective basis may involve the use of hindsight in determining the acquisition-date fair value of the retained interests; and
  - (b) the benefits of applying this guidance on a retrospective basis do not outweigh the cost and effort.

#### ***Change of interests resulting in a party to a joint operation obtaining joint control in a joint operation.***

14. The Interpretations Committee proposes that an entity should apply the amendments to transactions occurring on or after the effective date. Earlier application should be permitted. It recommends this approach for transition, because it thinks that the benefits of applying this guidance on a retrospective basis do not outweigh the cost and effort.

**Question 1 for the IASB**

Does the IASB agree with the Interpretations Committee's recommendation that the proposed amendments to IFRS 3 and IFRS 11 should be applied to transactions occurring on or after the effective date with early application permitted?

**Intention to dissent**

15. We note that when the IASB members voted on the proposed amendments to IFRS 3 and IFRS 11, no IASB members voted against. However, we are required to formally ask whether any IASB members intend to dissent from these proposed amendments before we ballot.

**Question 2 for the IASB members**

Do any IASB members intend to dissent from the proposed amendments to IFRS 3 and IFRS 11?

**Comment period**

16. We recommend that the IASB should publish the Exposure Draft with a comment period of 120 days. This is the minimum normal period that the IASB allows for comment on an Exposure Draft in accordance with paragraph 6.7 of the [IFRS Foundation Due Process Handbook](#) (February 2013).

**Proposed timetable for balloting and publication**

17. The proposed amendments will be included with the proposals in the *Definition of a Business* project. Consequently, we expect the balloting process of the exposure draft to commence in January 2016, with publication of the Exposure Draft scheduled during the second quarter of 2016.

## Confirmation of due process steps

18. In **Appendix A** of this paper we have summarised the due process steps followed by the IASB in developing the Exposure Draft. In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of an Exposure Draft (ED) for a Standard, Practice Guidance or Conceptual Framework chapter’ from the [Due Process Protocol](#).
19. We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the Exposure Draft.

### Questions 3-5 for the IASB

- 3.. Does the IASB agree that the Exposure Draft should be published with a comment period of 120 days?
4. Does the IASB agree with the proposed timetable for publication and give the staff permission to start the balloting process?
5. Is the IASB satisfied that all due process steps required to date that relate to the publication of the Exposure Draft have been complied with?

## Appendix A—Actions taken to meet the due process requirements

A1. The following table sets out the actions taken by the IASB to meet the due process requirements required.

### Development and publication of an Exposure Draft (ED) for a Standard

<i>Step</i>	<i>Required/optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
The IASB's and the Interpretations Committee's meetings are held in public, with papers being available for observers. All decisions are made in a public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The proposed amendments were discussed and approved by the IASB at its meeting in October 2015. The <a href="#">project webpage</a> has been updated by the staff after every Interpretations Committee or IASB meeting in which the proposed amendments and the related transactions were discussed. Agenda Papers were posted on the website before every Interpretations Committee or IASB meeting on a timely basis. <i>Interpretations Committee meetings:</i> May 2015: <a href="#">Agenda Paper 8</a> July 2015: <a href="#">Agenda Paper 6</a> September 2015: <a href="#">Agenda Paper 5A</a> and <a href="#">Agenda Paper 5C</a> <i>IASB meetings:</i> October 2015: <a href="#">Agenda Paper 12B</a> , <a href="#">Agenda Paper 12C</a> and <a href="#">Agenda Paper 12D</a>
Consultation with the Trustees and the IFRS Advisory Council (the 'Advisory Council').	Required	Discussions with the Advisory Council.	Not considered necessary as proposed amendments have a narrow scope.
Fieldwork is undertaken to analyse proposals.	Optional	The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the Due Process Oversight Committee (DPOC) why it does not believe that fieldwork is warranted, if that is the preferred path. Extent of field tests taken.	Not considered necessary as proposed amendments have a narrow scope.

Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	Extent of meetings held. Evidence of specific targeted efforts to consult investors.	Outreach was conducted with national standard-setters, regulators, accounting firms and an oil and gas industry group.  The IFRS IC/IASB have received input through the outreach request. The staff reported the results of the outreach request to the Interpretations Committee at its meetings in May and July 2015. The outreach results showed that there was diversity in practice in determining the appropriate accounting for previously held interests in these transactions..
Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.	Optional	Extent of, and participation in, webcasts.	In September 2015 the staff recorded a <a href="#">podcast</a> to give an overview of the conclusions and recommendations of the Interpretations Committee on these transactions.
Public discussions with representative groups.	Optional	Extent of discussions held.	Not considered necessary as proposed amendments have a narrow scope.
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys.	Not considered necessary as proposed amendments have a narrow scope.
The IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	Schedule of meetings held in these forums.	Not considered necessary as proposed amendments have a narrow scope.
Round-table meetings between external participants and members of the IASB.	Optional	Extent of meetings held.	Not considered necessary as proposed amendments have a narrow scope.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effects Analysis as part of the Basis for Conclusions.	N/A
<b>Finalisation</b>			
Due process steps are reviewed by the IASB.	Required	Summary of all the due process steps have been discussed by the IASB before an Exposure Draft is published.	In this paper we are demonstrating that all the required due process steps applicable to date have been performed.
The Exposure Draft has an appropriate comment period.	Required	The period has been set by the IASB.  If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved.	In accordance with the IFRS Foundation <a href="#">Due Process Handbook</a> , we are proposing a comment period of 120 days.



Drafting			
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	To be done in due course.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	To be done in due course
Drafting quality assurance steps are adequate.	Optional	The Editorial team has been included in the review process.  In addition, external reviewers are used to review drafts for editorial review and the comments collected are considered by the IASB.	To be done in due course.
Drafting quality assurance steps are adequate.	Optional	Drafts for editorial review have been made available to members of the International Forum of Accounting Standard Setters (IFASS) and the comments have been collected and considered by the IASB.	To be done in due course.
Publication			
Exposure Draft published.	Required	ED posted on the IASB website.	To be done in due course.
Press release to announce publication of the Exposure Draft.	Required	Press release published.  Media coverage of the release.	To be done in due course.