International Financial Reporting Standard IFRS 11

Joint Arrangements

January 2022

BASIS FOR CONCLUSIONS

APPENDIX TO THE BASIS FOR CONCLUSIONS

Amendments to the Basis for Conclusions on other IFRSs

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Basis for Conclusions on IFRS 11 *Joint Arrangements*

This Basis for Conclusions accompanies, but is not part of, IFRS 11.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in IFRS 11 *Joint Arrangements*. Individual Board members gave greater weight to some factors than to others.

BC2 The Board added the joint ventures project to its agenda as part of the project to reduce differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). The requirements of IFRS 11 were not deliberated by the US Financial Accounting Standards Board (FASB).

BC3 The Board focused its deliberations on enhancing the faithful representation of joint arrangements that an entity provides in its financial statements, by establishing a principle-based approach to accounting for joint arrangements, and by requiring enhanced disclosures. Even though the Board focused its efforts on improving the reporting of joint arrangements, the result is that the requirements of the IFRS achieve closer convergence with US GAAP than did IAS 31 *Interests in Joint Ventures*, which IFRS 11 supersedes.

Objective

BC4 IFRS 11 sets out requirements for the recognition and measurement of an entity's interest in joint arrangements. The requirements for the disclosure of an entity's interest in joint arrangements have been included in IFRS 12 *Disclosure of Interests in Other Entities* (see paragraphs BC52–BC55). IFRS 11 is concerned principally with addressing two aspects of IAS 31 that the Board regarded as impediments to high quality reporting of joint arrangements: first, that the structure of the arrangement was the only determinant of the accounting, and second, that an entity had a choice of accounting treatment for interests in jointly controlled entities.

BC5 The Board did not reconsider all the requirements in IAS 31. For example, the Board did not reconsider the equity method. Accordingly, this Basis for Conclusions does not discuss requirements of IAS 31 that the Board did not reconsider.

BC6 The Board published its proposals in an exposure draft, ED 9 *Joint Arrangements*, in September 2007 with a comment deadline of 11 January 2008. The Board received over 110 comment letters on the exposure draft.

The problems with IAS 31

BC7 IAS 31 established different accounting requirements depending on whether the arrangements were structured through an entity. Jointly controlled operations and jointly controlled assets were arrangements that did not require the establishment of an entity or financial structure that is separate from the parties. IAS 31 required parties to these arrangements to recognise assets, liabilities, revenues and expenses arising from the arrangements. When arrangements were structured through an entity, IAS 31 classified them as jointly controlled entities. Parties with interests in jointly controlled entities accounted for them using proportionate consolidation or, as an alternative, the equity method.

BC8 The problem with basing different accounting requirements solely on the existence of an entity, combined with the choice of accounting treatment for jointly controlled entities, was that some arrangements that gave the parties similar rights and obligations were accounted for differently and, conversely, arrangements that gave the parties different rights and obligations were accounted for similarly. The Board's policy is to exclude options in accounting treatment from accounting standards whenever possible. Such options can lead to similar transactions being accounted for in different ways and, therefore, can impair comparability.

Improving IAS 31 with the principles of IFRS 11

BC9 In the Board's view, the accounting for joint arrangements should reflect the rights and obligations that the parties have as a result of their interests in the arrangements, regardless of those arrangements' structure or legal form. This is the principle that IFRS 11 establishes for parties to a joint arrangement when accounting for their interests in the arrangements. However, the Board acknowledges that sometimes the structure or the legal form of the joint arrangements is decisive in determining the parties' rights and obligations arising from the arrangements and, consequently, in determining the classification of the joint arrangements (see paragraphs BC26 and BC31).

BC10 Entities applying IAS 31 were required to choose the same accounting treatment (ie proportionate consolidation or equity method) when accounting for all of their interests in jointly controlled entities. Applying the same accounting treatment to all the interests that an entity has in different jointly controlled entities might not always lead to the faithful representation of each of those interests. For example, an entity whose policy was to account for all of its interests in jointly controlled entities using proportionate consolidation might have recognised assets and liabilities proportionately even though this did not faithfully represent the entity's rights and obligations in the assets and liabilities of particular joint arrangements. Conversely, an entity might have accounted for all of its interests in jointly controlled entities using the equity method, when the recognition of the entity's rights and obligations in particular joint arrangements would instead have led to the recognition of assets and liabilities.

BC11 The accounting for joint arrangements required by the IFRS is not a function of an entity's accounting policy choice but is, instead, determined by an entity applying the principles of the IFRS to each of its joint arrangements and recognising, as a result, the rights and obligations arising from each of them. The Board concluded that proportionate consolidation is not an appropriate method to account for interests in joint arrangements when the parties have neither rights to the assets, nor obligations for the liabilities, relating to the arrangement. The Board also concluded that the equity method is not an appropriate method to account for interests in joint arrangements when parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Board believes that it is misleading for users of financial statements if an entity recognises assets and liabilities for which it does not have rights or obligations, or does not recognise assets and liabilities for which it does have rights and obligations.

BC12 The Board also reconsidered the disclosure requirements in IAS 31 for interests in joint arrangements. The Board believes that the disclosure requirements in IFRS 12 will enable users to gain a better understanding of the nature and extent of an entity's operations undertaken through joint arrangements.

Scope

BC13 The IFRS should be applied by all entities that are a party to a joint arrangement. The IFRS does not change the two essential characteristics that IAS 31 required arrangements to have in order to be deemed 'joint ventures', ie that a contractual arrangement that binds the parties to the arrangement exists, and that the contractual arrangement establishes that two or more of those parties have joint control of the arrangement.

BC14 The Board believes that the new definition of control and the application requirements to assess control in IFRS 10 *Consolidated Financial Statements* will assist entities in determining whether an arrangement is controlled or jointly controlled, and in that respect it might cause entities to reconsider their previous assessment of their relationship with the investee. Despite the changes that these reassessments might cause, the Board believes that arrangements that were within the scope of IAS 31 would generally also be within the scope of IFRS 11.

Scope exception

BC15 The Board reconsidered the scope exception of IAS 31 that had also been proposed in ED 9. The Board concluded that the scope exception in ED 9 for interests in joint ventures held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*, is more appropriately characterised as a measurement exemption, not as a scope exception.

BC16 The Board observed that when venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, conclude that they have an interest in a joint arrangement, this is because the arrangement has the characteristics of a joint arrangement as specified in IFRS 11 (ie a contractual arrangement exists that establishes that two or more parties have joint control of the arrangement).

BC17 The Board also observed that the scope exception in ED 9 did not relate to the fact that these arrangements do not have the characteristics of joint arrangements, but to the fact that for investments held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, fair value measurement provides more useful information for users of the financial statements than would application of the equity method.

BC18 Accordingly, the Board decided to maintain the option that permits such entities to measure their interests in joint ventures at fair value through profit or loss in accordance with IFRS 9, but clarified that this is an exemption from the requirement to measure interests in joint ventures using the equity method, rather than an exception to the scope of IFRS 11 for joint ventures in which these entities have interests.

Joint arrangements

BC19 The Board decided to use the term 'joint arrangement', rather than 'joint venture', to describe arrangements that are subject to the requirements of the IFRS. As noted in paragraph BC13, the IFRS does not change the two essential characteristics that IAS 31 required for arrangements to be 'joint ventures': a contractual arrangement that binds the parties to the arrangement exists, and the contractual arrangement establishes that two or more of those parties have joint control of the arrangement.

Joint control

BC20 In ED 9, the proposed definition of 'joint arrangement' required 'shared decision-making' by all the parties to the arrangement. Some respondents questioned how 'shared decision-making' was intended to operate and how it differed from 'joint control'. The Board introduced the term 'shared decision-making' in the exposure draft instead of 'joint control' because control was defined in IAS 27 *Consolidated and Separate Financial Statements* in the context of having power over the financial and operating policies of an entity.[1] During its redeliberation of ED 9, the Board concluded that in joint arrangements, it is the activity undertaken by the parties that is the matter over which the parties share control or share decision-making, regardless of whether the activity is conducted in a separate entity. Consequently, the Board concluded that 'joint control' is a term that expresses better than 'shared decision-making' that the control of the activity that is the subject matter of the

1 The consolidation requirements in IAS 27 were replaced by IFRS 10 *Consolidated Financial Statements* issued in 2011 and the definition of control was revised.

arrangement is shared among the parties with joint control of the arrangement.

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.

BC22 In response to concerns expressed by some respondents who pointed out that, unlike IAS 31, ED 9 did not include the term 'investors in a joint arrangement', the Board clarified during its redeliberation of ED 9 that not all the parties to a joint arrangement need to have joint control for the arrangement to be a joint arrangement. Indeed, some of the parties to a joint arrangement can have joint control whereas others, although able to participate, do not have joint control of the arrangement. The Board decided to use the terms 'joint operators' to designate parties with joint control of a 'joint operation' and 'joint venturers' to designate parties with joint control of a 'joint venture' (see paragraph BC24).

BC23 The Board observed that the parties to a joint arrangement might agree to change or modify the governance and decision-making process of the arrangement at any time. As a result of such a change, a party might gain or lose joint control of the arrangement. Consequently, the Board concluded that if facts and circumstances change, the parties to a joint arrangement should reassess whether they are parties with joint control of the arrangement.

Types of joint arrangement

BC24 The IFRS classifies joint arrangements into two types—'joint operations' and 'joint ventures'. Parties with joint control of a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement ('joint operators'), whereas parties with joint control of a joint venture ('joint venturers') have rights to the net assets of the arrangement.

BC25 The classification of joint arrangements into two types was considered by the Board in its redeliberation of the exposure draft. ED 9 proposed to classify joint arrangements into three types—'joint operations', 'joint assets' and 'joint ventures'. The Board observed that in some instances it might be difficult to assess whether an arrangement is a 'joint operation' or a 'joint asset'. This is because elements from both types of joint arrangement are sometimes present (in many arrangements joint assets are also jointly operated, and therefore such arrangements could be viewed as a 'joint asset' or as a 'joint operation').

Additionally, both types of joint arrangement result in the same accounting outcome (ie recognition of assets and liabilities and corresponding revenues and expenses). For these reasons, the Board decided to merge 'joint operations' and 'joint assets' into a single type of joint arrangement called 'joint operation'. This decision simplifies the IFRS by aligning the two types of joint arrangement presented by the IFRS (ie 'joint operations' and 'joint ventures') with the two possible accounting outcomes (ie recognition of assets, liabilities, revenues and expenses, or recognition of an investment accounted for using the equity method).

BC26 The Board observed that when the parties do not structure their joint arrangement through a separate vehicle (ie arrangements that were formerly 'jointly controlled operations' and 'jointly controlled assets' in IAS 31), the parties determine in the contractual arrangements their rights to the assets, and their obligations for the liabilities, relating to the arrangement. Such arrangements are joint operations.

BC27 In reaching this conclusion, the Board acknowledged the possibility that parties to a joint arrangement that is not structured through a separate vehicle might establish terms in the contractual arrangement under which the parties have rights only to the net assets of the arrangement. The Board thought that this possibility was likely to be rare and that the benefits of introducing an additional assessment in the classification of joint arrangements when these are not structured through separate vehicles would not outweigh the costs of increasing the complexity of the IFRS. This is because in the vast majority of cases, accounting for joint arrangements that are not structured through separate vehicles on a gross basis leads to the faithful representation of the parties' rights and obligations arising from those arrangements.

BC28 The Board acknowledged that classifying jointly controlled entities in IAS 31 into joint operations or joint ventures in the IFRS requires an entity to assess its rights and obligations arising from these arrangements, which will require the entity to exercise judgement.

BC29 The Board considered whether the definition of a 'business', as defined in IFRS 3 *Business Combinations*, would be helpful in distinguishing between a joint venture and a joint operation. Because a 'business' can be found in all types of joint arrangement, the Board decided not to pursue this approach.

BC30 The Board also concluded that there should not be a rebuttable presumption that the arrangement is a joint venture when it has been structured through a separate vehicle. The Board decided that parties to a joint arrangement that is structured through a separate vehicle should assess the classification of the arrangement by taking into consideration all facts and circumstances. The Board noted that an entity should take into consideration the legal form of the separate vehicle, the terms agreed in the contractual arrangement and, when relevant, any other facts and circumstances.

BC31 In taking this approach, the Board observed that the legal form of the separate vehicle in which the joint arrangement is structured provides an initial indicator of the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement. The exception is when the legal form of the separate vehicle does not confer separation between the parties and the vehicle. In such a case, the Board concluded that the assessment of the rights and obligations conferred upon the parties by the legal form of that separate vehicle would be sufficient to conclude that the arrangement is a joint operation.

BC32 The Board believes that the selection of a particular legal form is in many cases driven by the intended economic substance that the particular legal form delivers. However, the Board observed that in some cases the choice of a particular legal form responds to tax, regulatory requirements or other reasons that can alter the intended economic substance initially sought by the parties to the arrangement. In those instances, the parties might use their contractual arrangements to modify the effects that the legal form of the arrangement would otherwise have on their rights and obligations.

BC33 The Board noted that other facts and circumstances might also affect the rights and obligations of the parties to a joint arrangement and, ultimately, affect the classification of the arrangement. Therefore, the parties should recognise the assets and liabilities relating to an arrangement if the parties designed the arrangement so that its activities primarily aimed to provide the parties with an output (ie the parties are entitled to substantially all the economic benefits of the assets relating to the arrangement) and they are, as a result of the design of the arrangement, obliged to settle the liabilities relating to the arrangement.

BC34 The IFRS defines 'joint ventures' as arrangements whereby the parties that have joint control of the arrangement (ie the joint venturers) have rights to the net assets of the arrangement. The Board observed that the term 'net assets' in the definition of joint ventures aimed to portray that the joint venturers have rights to an investment in the arrangement. However, such a definition (ie 'rights to the net assets of the arrangement') would not prevent a joint venturer from having a net liability position arising from its involvement in the joint venture. This could happen, for example, if the joint venture had incurred losses that had reduced the joint venturer's investment to zero, and as a result of the joint venturer having provided a guarantee to cover any losses that the joint venture might incur, the joint venturer has an obligation for those losses. The Board observed that neither the provision of the guarantee by the joint venturer, nor the liability assumed by the joint venturer as a result of the joint venture incurring losses, determines that the arrangement is a joint operation.

BC35 Many respondents to ED 9 were concerned that joint ventures could be merely 'residuals'. This is because these respondents interpreted joint ventures to mean that after parties had identified rights to individual assets or obligations for expenses or financing, joint ventures would be merely any remaining assets and liabilities of the arrangement. As a result of these concerns, the Board clarified that the unit of account of a joint arrangement is the activity that two or more parties have agreed to control jointly, and that a party should assess its rights to the assets, and obligations for the liabilities, relating to that activity. Consequently, the term 'joint venture' refers to a jointly controlled activity in which the parties have an investment.

BC36 During its redeliberation of ED 9, the Board made it clear that different joint arrangements or different types of joint arrangement can be established beneath the umbrella of a single arrangement or framework agreement to deal with, for example, different activities that are interrelated. The Board also observed the possibility that within the same separate vehicle the parties may undertake different activities in which they have different rights to the assets, and obligations for the liabilities, relating to these different activities resulting in different types of joint arrangement conducted within the same separate vehicle. However, the Board acknowledged that even though this situation is conceptually possible, it would be rare in practice.

BC37 The Board observed that the rights and obligations of parties to joint arrangements might change over time. This might happen, for example, as a result of a change in the purpose of the arrangement that might trigger a reconsideration of the terms of the contractual arrangements. Consequently, the Board concluded that the assessment of the type of joint arrangement needs to be a continuous process, to the extent that facts and circumstances change.

Financial statements of parties to a joint arrangement

Joint operation

BC38 In relation to the accounting for a party's interest in a joint operation, some respondents to ED 9 enquired how proportionate consolidation differed from the recognition of (or recognition of shares of) assets, liabilities, revenues and expenses arising from a joint operation. The Board noted that there are two main differences between recognising assets, liabilities, revenues and expenses relating to the activity of the joint operation and proportionate consolidation. The first difference relates to the fact that the rights and obligations, as specified in the contractual arrangement, that an entity has with respect to the assets, liabilities, revenues and expenses relating to a joint operation might differ from its ownership interest in the joint operation. The IFRS requires an entity with an interest in a joint operation to recognise assets, liabilities, revenues and expenses according to the entity's shares in the assets, liabilities, revenues and expenses of the joint operation as determined and specified in the contractual arrangement, rather than basing the recognition of assets, liabilities, revenues and expenses on the ownership interest that the entity has in the joint operation. The second difference from proportionate consolidation is that the parties' interests in a joint operation are recognised in their separate financial statements. Consequently, there is no difference in what is recognised in the parties' separate financial statements and the parties' consolidated financial statements or the parties' financial statements in which investments are accounted for using the equity method.

BC39 Respondents also suggested that the IFRS should provide more clarity in stating the requirements for the accounting for shares of assets in joint operations. Many respondents to ED 9 were not clear whether parties to a joint operation that had rights to the assets should recognise a 'right to use' or a 'right to a share' or whether they should instead directly recognise 'their share of the joint assets, classified according to the nature of the asset'. The concern raised by this uncertainty was the different accounting implications of these interpretations—ie accounting for rights or accounting for shares of assets. The Board concluded that a party to a joint operation should recognise its assets or its share of any assets in accordance with the IFRSs applicable to the particular assets.

BC40 An additional concern raised by some respondents to ED 9 was how the unit of account relating to the share of assets and liabilities to be accounted for by the parties to a joint operation should be delineated. The Board observed that ED 9 had not been intended to change this aspect of IAS 31, where the 'share' is determined in accordance with the contractual arrangement. The Board concluded that the contractual arrangement generally delineates the 'share' or 'part' not only of the assets or liabilities of the parties to joint operations, but also of their 'share' of any revenues and expenses arising from the joint operation.

Joint venture

BC41 In relation to the accounting for interests in joint ventures, the Board decided that entities should recognise their interests using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as stated in that standard. In reaching that conclusion, the Board considered the views of some respondents to ED 9 who pointed out that joint control and significant influence are different. Proponents of this view argue that it is not appropriate to account for an associate and a joint venture in the same way using the equity method. Although the Board acknowledged that significant influence and joint control are different, the Board concluded that, except for specific circumstances that are addressed in IAS 28 (as amended in 2011), the equity method is the most appropriate method to account for joint ventures because it is a method that accounts for an entity's interest in the net assets of an investee. Reconsideration of the equity method was outside the scope of the joint ventures project.

BC42 Other respondents expressed concerns about the elimination of proportionate consolidation. Those respondents believe that proportionate consolidation more faithfully represents the economic substance of the arrangements, and better meets the information needs of users of financial statements. The Board acknowledged these concerns, but observed that the approach in the IFRS is consistent with its view of what constitutes the economic substance of an entity's interests in joint arrangements, a view that it concedes may differ from that of those respondents. This seems inevitable given that, the evidence suggests that in accounting for interests in jointly controlled entities approximately half of the entities applying IFRSs use proportionate consolidation and half use the equity method. The variation in practice, which is facilitated by the option in IAS 31, is a prime motivation for developing IFRS 11 (see paragraphs BC7 and BC8). That variation will, inevitably, be a source of disagreement.

BC43 The Board believes that the accounting for joint arrangements should faithfully reflect the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement. In that respect, the Board observes that the activities that are the subject of different joint arrangements might be operationally very similar, but that the contractual terms agreed by the parties to these joint arrangements might confer on the parties very different rights to the assets, and obligations for the liabilities, relating to such activities. Consequently, the Board believes that the economic substance of the arrangements does not depend exclusively on whether the activities undertaken through joint arrangements are closely related to the activities undertaken by the parties on their own, or on whether the parties are closely involved in the operations of the arrangements. Instead, the economic substance of the arrangements depends on the rights and obligations assumed by the parties when carrying out such activities. It is those rights and obligations that the accounting for joint arrangements should reflect.

BC44 The Board observes that the IFRS requires parties to account for assets and liabilities when the contractual arrangement specifies that they have rights to the assets and obligations for the liabilities. The Board believes that accounting for joint arrangements that is based on the principles of the IFRS will contribute not only to improving the faithful representation of an entity's interests in joint arrangements, but also to enhancing comparability. This is because arrangements in which the parties have rights to the assets and obligations for the liabilities will require the same accounting treatment. In the same way, arrangements in which the parties have rights to the net assets of the arrangement will also require the same accounting treatment.

BC45 The Board does not believe that the elimination of proportionate consolidation will cause a loss of information for users of financial statements. This is because the disclosure requirements in IFRS 12, when compared with IAS 31, will improve the quality of the information provided to users relating to an entity's interest in joint ventures. The disclosure requirements in IFRS 12 will provide users with information about individual joint ventures when those joint ventures are material to the reporting entity. In addition, the Board notes that the summarised financial information required in IFRS 12 results in a higher degree of detail than did IAS 31, which gives users a better basis for assessing the effect on the reporting entity of the activities carried out through joint ventures.

Accounting for acquisitions of interests in joint operations

BC45A The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed in accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets, as specified in IAS 31.[2] In particular, the Interpretations Committee noted diversity in practice if the activity of the jointly controlled operations or jointly controlled assets constitutes a business, as defined in IFRS 3.

BC45B The principal approaches observed in practice were:

(a) **IFRS 3 approach:** some preparers of IFRS financial statements, when accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business, applied IFRS 3 and the guidance on business combinations in other IFRSs. Identifiable assets and liabilities were measured, subject to the exceptions in IFRS 3, at fair value and the residual was recognised as goodwill. Furthermore, transaction costs were not capitalised and deferred taxes were recognised on initial recognition of assets and liabilities. Only guidance on business combinations in IFRS 3 and other IFRSs that was not appropriate for the acquisition of an interest in jointly controlled operations or jointly controlled assets was not applied, for example, the guidance on non-controlling interests.

(b) **cost approach:** others allocated the total cost of acquiring the interest in the joint operation to the individual identifiable assets on the basis of their relative fair values. Accordingly, any premium paid was allocated to the identifiable assets rather than being recognised as goodwill. Transaction costs were capitalised and deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*.

(c) **hybrid approach**: a third group of preparers of IFRS financial statements only applied the principles on business combinations accounting in IFRS 3 and other IFRSs to issues that were not addressed elsewhere in IFRS. Identifiable assets and liabilities were measured at fair value, with exceptions, and the residual was recognised as a separate asset, ie goodwill. Transaction costs, however, were capitalised and contingent liabilities and deferred taxes were not recognised because these issues were considered as being addressed elsewhere in IFRS. Deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12.

BC45C The different approaches have led to different accounting outcomes, in particular:

(a) in accounting for premiums paid in excess of the value of the identifiable net assets;

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2 IFRS 11 *Joint Arrangements* shall be applied for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures*.

(b) in capitalising or expensing acquisition-related costs; and

(c) in accounting for deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities.

BC45D The IASB noted that the diversity in practice resulted from the fact that IAS 31 did not give specific guidance on the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets, the activity of which constitutes a business, as defined in IFRS 3. The IASB was concerned that this diversity in practice may continue in the accounting for acquisitions of interests in joint operations, as defined in IFRS 11, when the activities of those joint operations constitute businesses. Arrangements that were formerly 'jointly controlled operations' and 'jointly controlled assets' in IAS 31 are joint operations in IFRS 11 (see paragraph BC26). As was the case in IAS 31, a joint operator recognises its (share in the) assets, liabilities, revenue and expenses relating to such arrangements.

BC45E The IASB considered the guidance in current IFRS on the acquisition of an interest in a business. The IASB recognised that the acquisition of an interest in a joint operation does not meet the definition of a business combination in IFRS 3. Nonetheless, the IASB concluded that the most appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, is to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS.

BC45F The IASB reached this conclusion because:

(a) it considers that separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values;

(b) it thinks that an approach that limits the application of business combinations accounting only to issues that are not addressed elsewhere in IFRS lacks a strong conceptual basis; and

(c) the guidance in IFRS 3 and other IFRSs on business combinations give a comprehensive and consistent set of accounting principles for the different components of such complex transactions as acquisitions of interests in businesses.

BC45G The IASB also concluded that an entity that is acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, shall disclose the relevant information that is specified in IFRS 3 and other IFRSs on business combinations. This is because these requirements are an integral part of the financial reporting about the acquisition of interests in businesses.

BC45H Consequently, the IASB amended IFRS 11 to address the accounting for both the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, and the related disclosure requirements, as a means to resolve the diversity in practice.

BC45I The IASB noted that the fact patterns raised with the Interpretations Committee were limited to circumstances involving a business, as defined in IFRS 3. The IASB noted that IFRS already provides guidance for the acquisition of an interest in an asset or a group of assets that is not a business, as defined in IFRS 3. Consequently, the amendments apply only when an entity acquires an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, either on formation of that joint operation or when acquiring an interest in an existing joint operation.

BC45J The Exposure Draft *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), which was published in December 2012, used the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' to describe the principles that have to be applied in accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. In analysing the comment letters on the Exposure Draft, the IASB noted divergent understanding of what the 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs' are, within the context of the proposed amendment.

BC45K In order to avoid diversity in practice from the application of the term 'relevant principles on business combinations accounting in IFRS 3 and other IFRSs', the IASB decided to replace this term with 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS'. In addition, to aid understanding the application guidance includes a non-exhaustive list of five principles related to business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the principles in this IFRS. Four of them relate to the areas in which the Interpretations Committee observed different accounting outcomes from the application of different approaches to the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business (see paragraphs BC45B–BC45C).

BC45L The IASB also noted that the reference to 'all of the principles on business combinations accounting in IFRS 3 and other IFRSs' is ambiguous for acquisitions of additional interests in joint operations that result in the joint operator retaining joint control of the joint operation. It might be understood as a reference to either:

(a) paragraph 42 of IFRS 3 with the result of remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or

(b) paragraph 23 of IFRS 10 with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.

BC45M In order to resolve this ambiguity, the IASB decided to clarify that previously held interests in a joint operation are not remeasured if the joint operator retains joint control. Paragraph 23 of IFRS 10 addresses the accounting for the acquisition of an additional interest in a business that is already controlled by the acquirer. This is the analogous transaction to the acquisition of an interest in a business that is already jointly controlled by the acquirer and will continue to be jointly controlled by it. Paragraph 42 of IFRS 3 instead addresses the acquisition of an interest that results in the acquirer obtaining control over the business. This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business.

BC45N The IASB decided to add a scope exclusion for joint operations under common control to the amendments to IFRS 11. The IASB concluded that the amendments to IFRS 11 should not require the application of all of the principles on business combinations accounting for transactions that would be outside the scope of IFRS 3 if control, rather than joint control, would be obtained or retained by the acquirer.

Previously held interest in a joint operation (amendments issued in December 2017)

BC45O The Board was informed that entities, on obtaining joint control of a business that is a joint operation, accounted for their previously held interest in the joint operation differently. In particular, there were different views on whether an entity applied the principles for accounting for a business combination achieved in stages to its previously held interest when it obtained joint control.

BC45P The Board observed that although such a transaction changes the nature of an entity's interest in a joint operation, it does not result in a change in the group boundaries. In this respect, the transaction is similar to an investment in an associate becoming an investment in a joint venture and vice versa. The Board noted that paragraph 24 of IAS 28 prohibits an entity from remeasuring its previously held interest in those circumstances. The Board also observed that remeasuring a previously held interest in a joint operation could conflict with the requirement in IFRS 11 for an entity to account for its assets and liabilities relating to its interest in a joint operation applying the applicable IFRSs.

BC45Q Consequently, the Board added paragraph B33CA to clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

Transactions between an entity and a joint operation in which that entity is a joint operator and incorporation of SIC-13 into the IFRS

BC46 In its redeliberation of ED 9, the Board noted that the exposure draft was silent on the accounting for transactions between an entity and a joint operation in which that entity is a joint operator. The Board observed that the IFRS did not aim to change the accounting procedures that entities applied when accounting for such transactions in accordance with IAS 31, but it did acknowledge that the IFRS should state what those requirements were.

BC47 The Board also decided to include the requirements for the accounting for transactions entered into between a joint venturer and a joint venture, including the consensus of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*, in IAS 28 (as amended in 2011).

Reporting interests in joint arrangements in the financial statements of parties that participate in, but do not have joint control of, a joint arrangement

BC48 The Board decided to clarify in the IFRS that an arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This was consistent with IAS 31, which defined an 'investor in a joint venture' as a party to a joint venture that does not have joint control of that joint venture. The Board noted, however, that relating the term 'investor' exclusively to parties with no joint control of the arrangement can be confusing because the parties with joint control of the arrangement are also investors in those arrangements. Accordingly, the Board modified the language in the IFRS to avoid that confusion. However, even though in its redeliberation of ED 9 the Board highlighted that the IFRS establishes recognition and measurement requirements for the parties with joint control of a joint arrangement, the Board decided to address the accounting requirements for parties that participate in, but do not have joint control of, a joint arrangement, to reduce divergence in practice.

BC49 In relation to parties that participate in, but do not have joint control of, a joint arrangement that is a joint operation, the Board focused its discussions on those parties for which the contractual arrangements specify that they have rights to the assets, and obligations for the liabilities, relating to the joint operation. The Board concluded that, even though those parties are not joint operators, they do have rights and obligations for the assets, liabilities, revenues and expenses relating to the joint operation, which they should recognise in accordance with the terms of the contractual arrangement.

BC50 The Board considered that the requirements in IAS 31 for parties that participate in, but do not have joint control of, joint ventures were appropriate and therefore decided to carry them forward to the IFRS. Consequently, such a party should account for its investment in accordance with IFRS 9 or, if that party has significant influence over the joint venture, in accordance with IAS 28 (as amended in 2011).

Joint operation held for sale

BC51 ED 9 was silent on how an entity should account for an interest in a joint operation that is classified as held for sale. The Board decided that a joint operator should account for an interest in a joint operation that is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Board also confirmed that the guidance in IFRS 5 for the classification of a disposal group as held for sale would apply to interests in joint operations held for sale.

Disclosure

BC52 As part of its redeliberation of ED 9 and ED 10 *Consolidated Financial Statements*, the Board identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities, and to present those requirements in a single IFRS.

BC53 The Board observed that IAS 27 (as revised in 2003), IAS 28 (as revised in 2003) and IAS 31 contained many similar disclosure requirements. ED 9 had already proposed amendments to the disclosure requirements for joint ventures and associates to align the disclosure requirements for those two types of investments more closely. The Board noted that the majority of respondents agreed with the proposals in ED 9 to align the disclosures for joint ventures with the disclosures in IAS 28 for associates.

BC54 As a result, the Board combined the disclosure requirements for interest with subsidiaries, joint arrangements, associates and unconsolidated structured entities within a single comprehensive standard, IFRS 12.

BC55 The Basis for Conclusions accompanying IFRS 12 summarises the Board's considerations in developing that IFRS, including its review of responses to the disclosure proposals in ED 9. Accordingly, IFRS 11 does not include disclosure requirements and this Basis for Conclusions does not incorporate the Board's considerations of responses to the proposed disclosure requirements in ED 9.

Effective date

BC56 The Board decided to align the effective date for the IFRS with the effective date for IFRS 10, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (as amended in 2011). When making this decision, the Board noted that the five IFRSs all deal with the assessment of, and related accounting and disclosure requirements about, a reporting entity's special relationships with other entities (ie when the reporting entity has control or joint control of, or significant influence over, another entity). As a result, the Board concluded that applying IFRS 11 without also applying the other four IFRSs could cause unwarranted confusion.

BC57 The Board usually sets an effective date of between twelve and eighteen months after issuing an IFRS. When deciding the effective date for those IFRSs, the Board considered the following factors:

(a) the time that many countries require for translation and for introducing the mandatory requirements into law.

(b) the consolidation project was related to the global financial crisis that started in 2007 and was accelerated by the Board in response to urgent requests from the leaders of the G20, the Financial Stability Board, users of financial statements, regulators and others to improve the accounting and disclosure of an entity's 'off balance sheet' activities.

(c) the comments received from respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 regarding implementation costs, effective date and transition requirements of the IFRSs to be issued in 2011. Most respondents did not identify the consolidation and joint arrangements IFRSs as having a high impact in terms of the time and resources that their implementation would require. In addition, only a few respondents commented that the effective dates of those IFRSs should be aligned with those of the other IFRSs to be issued in 2011.

BC58 With those factors in mind, the Board decided to require entities to apply the five IFRSs for annual periods beginning on or after 1 January 2013.

BC59 Most respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of IFRS 11 but only if an entity applies it in conjunction with the other IFRSs (ie IFRS 10, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011)) to avoid a lack of comparability among financial statements, and for the reasons noted in paragraph BC56 that triggered the Board's decision to set the same effective date for all five IFRSs. Even though an entity should apply the five IFRSs at the same time, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities.

Transition

BC60 The exposure draft proposed retrospective application of the requirements. In its redeliberation of ED 9, the Board observed that entities affected by the changes introduced by the IFRS would have enough time to prepare to apply the new requirements retrospectively. The Board was informed of a few cases in which entities, on the basis of their analysis of the proposals in ED 9, had already changed their accounting for interests in joint arrangements retrospectively, taking advantage of the accounting option that IAS 31 offered to jointly controlled entities.

BC61 However, in its discussions, the Board considered the views of some respondents to ED 9 who had expressed their concern about applying the requirements retrospectively, because of undue cost and effort. In response to these concerns, the Board decided that in the case of changing from proportionate consolidation to the equity method, an entity should not adjust retrospectively any differences between the accounting methods of proportionate consolidation and equity method, but should instead aggregate the carrying amounts of the assets and liabilities, including any goodwill arising from acquisition, that the entity had previously proportionately consolidated into a single line investment as at the beginning of the earliest period presented.

BC62 The Board also decided that the opening balance of the investment should be tested for impairment in accordance with paragraphs 40–43 of IAS 28 (as amended in 2011), with any resulting impairment loss being adjusted against retained earnings at the beginning of the earliest period presented.

BC63 The Board also considered the case when an arrangement that was previously proportionately consolidated has a negative net asset position on transition. In such a case, an entity should assess whether it has legal or constructive obligations in relation to those negative net assets. The Board concluded that if the entity does not have legal or constructive obligations in relation to the negative net assets, it should not recognise the corresponding liability but it should adjust retained earnings at the beginning of the earliest period presented. The entity should also be required to disclose this fact along with its cumulative unrecognised share of losses of the joint venture as at the beginning of the earliest period presented and at the date at which the IFRS is first applied.

BC64 The Board also considered requiring disclosures to help users of financial statements to understand the consequences of the accounting change for those joint arrangements that would be changing from proportionate consolidation to the equity method. To address this need, the Board decided that an entity should disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment as at the beginning of the earliest period presented.

BC65 The Board redeliberated the transition requirements for entities changing from the equity method to accounting for assets and liabilities in respect of their interest in a joint operation. The Board decided to require an entity to recognise each of the assets, including any goodwill arising from acquisition, and the liabilities relating to its interest in the joint operation at its carrying amount on the basis of the information used by the entity in applying the equity method, instead of requiring the entity to remeasure its share of each of those assets and liabilities at the date of transition. The Board did not believe that the costs of requiring entities to remeasure the assets and liabilities relating to the joint operation as a result of the accounting change would outweigh the benefits.

BC66 The Board observed that changing from the equity method to accounting for assets and liabilities in respect of an entity's interest in a joint operation could result in the net amount of the assets and liabilities recognised being either higher or lower than the investment (and any other items that formed part of the entity's net investment in the arrangement) derecognised. In the first case, the Board noted that assets and liabilities recognised could be higher than the investment derecognised when the entity had previously impaired the carrying amount of the investment. The Board observed that, in accordance with IAS 28 (as amended in 2011), such an impairment loss would not have been allocated to any asset, including goodwill, that formed part of the carrying amount of the investment and that as a result, the net amount of the underlying assets and liabilities could be higher than the carrying amount of the investment. To address this, the Board concluded that in such a case, an entity should first adjust the difference against any goodwill related to the investment, with any remaining difference adjusted against retained earnings at the beginning of the earliest period presented. In the second case, the Board noted that the net amount of the assets and liabilities recognised could be lower than the investment derecognised when, for example, an entity applied the same percentage interest to all the underlying assets and liabilities of its investee when determining the carrying amount of its investment using the equity method. However, for some of those underlying assets the entity could have a lower interest when accounting for it as a joint operation. The Board concluded that in such a case, an entity should adjust any difference between the net amount of the assets and liabilities recognised and the investment (and any other items that formed part of the entity's net investment in the arrangement) derecognised against retained earnings at the beginning of the earliest period presented.

BC67 The Board also redeliberated the transition requirements for entities accounting for an interest in a joint operation in its separate financial statements when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. As stated in paragraph BC38, the Board observed that the parties' interests in a joint operation are recognised in their separate financial statements, resulting in no difference between what is recognised in the parties' separate financial statements and in the parties' consolidated financial statements. The Board decided that an entity should adjust any difference between the investment derecognised and the assets and liabilities recognised in respect of the entity's interest in a joint operation against retained earnings at the beginning of the earliest period presented.

BC68 The Board also considered requiring disclosures to help users of financial statements to understand the consequences of the accounting change from the equity method to accounting for assets and liabilities, and when accounting for an interest in a joint operation in the separate financial statements of an entity when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. The Board decided that in both cases, an entity should provide a reconciliation between the investment derecognised and the breakdown of the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the earliest period presented.

BC69 As stated in paragraph BC57, respondents to the Request for Views also commented on the transition requirements of the IFRSs to be issued in 2011. In relation to the transition requirements relating to the consolidation and joint arrangements IFRSs, the Board noted that the majority of the respondents to the Request for Views had agreed with the tentative decisions that the Board had previously made at the time of the consultation on the transition requirements for those IFRSs.

BC69A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board also decided to make similar amendments to the transition guidance in Appendix C to this IFRS and Appendix C to IFRS 12 *Disclosure of Interests in Other Entities* to be consistent with this decision. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.

BC69B The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the accounting for a joint arrangement on transition to IFRS 11 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the accounting for a joint arrangement to only the annual period immediately preceding the first annual period for which IFRS 11 is applied. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Accounting for acquisitions of interests in joint operations

BC69C The IASB considered the transition provisions and effective date of the amendments to IFRS 11. The IASB noted that applying all of the principles of business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS to transactions that have previously been accounted for by applying one of the divergent approaches presented in paragraph BC45B might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transaction and in performing the impairment test for goodwill. Consequently, the IASB decided that an entity would apply the amendments to IFRS 11 prospectively for transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.

Previously held interest in a joint operation (amendments issued in December 2017)

BC69D The Board decided that an entity applies paragraph B33CA to transactions in which joint control is obtained on or after the date it first applies the amendments. The Board concluded that the benefits of applying the amendments retrospectively were unlikely to exceed the costs of doing so because:

(a) the nature of such transactions varies and restatement might not provide useful trend information to users of financial statements; and

(b) applying a retrospective approach could result in significant costs for some entities because doing so could require an entity to analyse earlier acquisitions of interests in joint operations.

Summary of main changes from ED 9

BC70 The main changes from the exposure draft ED 9 are:

(a) IFRS 11 applies to all entities that have an interest in a joint arrangement. The scope exception in the exposure draft for venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, has been removed and has been recharacterised as an exemption from the requirement to measure investments in joint ventures in accordance with the equity method.

(b) IFRS 11 replaces the term 'shared decisions' introduced by ED 9 with the term 'joint control'. As in IAS 31, 'joint control' is one of the features that, along with the existence of a contractual arrangement, defines 'joint arrangements'.

(c) IFRS 11 classifies joint arrangements into two types—'joint operations' and 'joint ventures'. Each type of joint arrangement is aligned with a specific accounting requirement. ED 9 had classified joint arrangements into three types—'joint operations', 'joint assets' and 'joint ventures'.

(d) IFRS 11 provides application requirements to assist entities in the classification of their joint arrangements. The IFRS requires an entity to determine the type of joint arrangement in which it is involved by considering its rights and obligations. In particular, the IFRS requires an entity to give consideration to the structure and legal form of the arrangement, to the terms agreed by the parties in the contractual arrangement and, when relevant, it should also consider other facts and circumstances.

(e) IFRS 11 clarifies that not all the parties to a joint arrangement need to have joint control for the arrangement to be a joint arrangement. As a result, some of the parties to a joint arrangement might participate in the joint arrangement, but might not have joint control of it.

(f) The consensus of SIC-13 has been incorporated into IAS 28 (as amended in 2011), and SIC-13 is accordingly withdrawn. ED 9 had proposed to incorporate the consensus of SIC-13 into the standard on joint arrangements.

(g) The disclosure requirements have been placed in IFRS 12. ED 9 had proposed to incorporate the disclosure requirements for joint arrangements into the standard on joint arrangements.

(h) IFRS 11 does not require an entity to adjust the differences between the proportionate consolidation method and the equity method retrospectively when an entity changes from proportionate consolidation to the equity method when accounting for its joint ventures. Instead, it requires an entity to recognise its investment in a joint venture as at the beginning of the earliest period presented, by measuring it as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. ED 9 had proposed retrospective application of the requirements.

Cost-benefit considerations

BC71 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new IFRS might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

BC72 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:

(a) the costs incurred by preparers of financial statements;

(b) the costs incurred by users of financial statements when information is not available;

(c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information;

(d) the benefit of better economic decision-making as result of improved financial reporting; and

(e) the costs of transition for users, preparers and others.

BC73 The Board concluded that the IFRS benefits preparers and users of financial statements. This is because the accounting for joint arrangements in the IFRS follows a principle-based approach. This approach has allowed the Board to remove the accounting option in IAS 31 so that each type of joint arrangement (ie 'joint operations' and 'joint ventures') is accounted for on a consistent basis. This contributes to enhancing the verifiability, comparability and understandability of these arrangements in entities' financial statements.

BC74 In the IFRS, the accounting for joint arrangements depends on the rights and obligations arising from the arrangement (not exclusively on whether the parties have chosen a particular structure or legal form to carry out their arrangements, or on the consistent application of an accounting policy—proportionate consolidation or equity method). Thus, the IFRS promotes greater comparability by applying the same approach to different joint arrangements.

BC75 The Board believes that basing the accounting on the principles in the IFRS results in enhanced verifiability, comparability and understandability, to the benefit of both preparers and users. First, verifiability and understandability are enhanced because the accounting reflects more faithfully the economic phenomena that it purports to represent (ie an entity's rights and obligations arising from its arrangements), which allows them to be better understood. Second, requiring the same accounting for each type of arrangement will enable entities to account for joint arrangements consistently: arrangements that confer on the parties rights to the assets and obligations for the liabilities are joint operations and arrangements that confer on the parties rights to the net assets are joint ventures. Consistency in the accounting for joint arrangements will help to achieve comparability among financial statements, which will enable users to identify and understand similarities in, and differences between, different arrangements.

BC76 The Board noted that the costs that preparers will have to bear when applying the IFRS to their arrangements are concentrated in the assessment of the type of joint arrangement rather than in the accounting for the arrangements. This is because entities accounting for joint arrangements in accordance with IAS 31 were not required to classify their arrangements on the basis of their rights and obligations arising from the arrangement, but instead on whether the arrangement was structured in an entity. The IFRS will require entities to assess the type of joint arrangement in which they are involved when those arrangements have been structured through a separate vehicle. Even though the classification of the joint arrangements represents an additional assessment that was not required in IAS 31, the application requirements in the IFRS that should assist preparers in the classification of their arrangements are not unduly complex. The Board does not think that the additional assessment that the IFRS will require for the classification of arrangements will result in an undue cost to preparers.

BC77 The Board noted that the IFRS, by comparison with the exposure draft, simplifies the proposals by aligning the types of joint arrangement with the accounting methods. The Board concluded that once an entity has determined the classification of the arrangement, the accounting for the arrangement will follow accounting procedures that have not been modified by the IFRS (ie entities will either account for assets and liabilities or they will account for an investment using the equity method). However, the Board acknowledged that the requirement for joint operations to be accounted for in the same way in the entity's consolidated financial statements as in the entity's separate financial statements might lead to additional costs to entities in jurisdictions in which separate financial statements are required to be reported in accordance with IFRSs. This is because those requirements might cause entities to perform additional manual procedures such as reconciliations between the statutory accounts and the tax returns, and might require an entity to provide additional explanations of the impact of the changes to, for example, its creditors. Except for these costs and any other costs required on transition, the costs of accounting for joint arrangements once the entities have determined their classification will remain unchanged as a result of the IFRS.

BC78 The Board concluded that enhanced verifiability, comparability and understandability result in a more faithful representation of joint arrangements in the financial statements of the entities that are involved in such arrangements, and that those benefits outweigh the costs that preparers might incur when implementing the IFRS.

Appendix
Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs that are necessary in order to ensure consistency with IFRS 11 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

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The amendments contained in this appendix when IFRS 11 was issued in 2011 have been incorporated into the Basis for Conclusions on the relevant IFRSs published in this volume.