

IFRS 11 and IAS 28: Assessing for Joint Control

Extract, IFRS® Discussion Group Report on the Meeting – October 16, 2018

Joint control is defined in Appendix A of IFRS 11 *Joint Arrangements* as follows:

"The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control."

Paragraph 10 of IFRS 11 states that "[i]n a joint arrangement, no single party controls the arrangement. A party with joint control of an arrangement can prevent any of the other parties, or a group of parties, from controlling the arrangement." Paragraph B9 of IFRS 11 then states, in part, that "[t]he requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent."

For example, a contractual arrangement can establish unanimous consent implicitly where the portion of the voting rights needed to make decisions about the relevant activities effectively requires a specified combination of the parties to agree.

The Group discussed the following fact pattern to highlight some of the factors to consider in determining whether the arrangement is within the scope of IFRS 11.

Fact Pattern

- Entity S is incorporated for the purpose to acquire, develop and sell certain renewable assets. All of the relevant activities require 80 per cent vote of the shareholders.
- The five parties involved have the following voting rights: A and B each have 38 per cent of the voting rights in the arrangement, and C, D, and E each have 8 per cent.
- All shareholders actively participate in the shareholders' meetings relating to the proposed asset acquisition and disposition, as well as to approve development budgets for each asset in Entity S.
- The shareholders are not contractually required to act together. However, there is a contractual arrangement that sets out the terms upon which the parties participate in the activity because the relevant activities require 80 per cent vote of the shareholders.

Issue: Is this fact pattern considered a joint arrangement under IFRS 11?

View A – Yes.

Under this view, joint control exists in this fact pattern. With combined voting rights of 76 per cent between A and B, no decisions can be made without the agreement of these two parties. This means that A and B need to participate in all decisions regarding the relevant activities of Entity S.

Proponents of this view also think that unanimous consent is implicit because A or B, both individually or together, can prevent any other party from reaching the 80 per cent minimum voting requirement.

View B – No.

Under this view, joint control does not exist in this fact pattern. Paragraph B8 of IFRS 11 states:

“In other circumstances, the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the contractual arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.”

The contractual arrangement specifies that 80 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A or B can block any decision because of their individual 38 per cent voting rights, neither A nor B controls the arrangement because each would require the agreement of the other, and also the votes of party C, D, or E. This means there is more than one combination of parties that can reach 80 per cent of the voting rights.

Proponents of this view think that there is not unanimous consent because control is shared amongst A and B, and any one of the other parties (i.e., C, D, or E). To be a joint arrangement, the contractual arrangement among the parties would need to indicate which specific combination of the parties is required to agree unanimously to decisions about the relevant activities in the arrangement.

View C – It depends on the facts and circumstances.

Paragraph 12 of IFRS 11 indicates that an entity will need to make an assessment of whether all, or a group, of the parties have control of the arrangement based on considering all the facts and circumstances.

The Group’s Discussion

Group members noted that this fact pattern is not considered a joint arrangement under IFRS 11 for the reasons described in View B above. The guidance in IFRS 11 is quite explicit such that View A and View C are not supportable. A Group member noted that this fact pattern is fundamentally similar to Example 2 in paragraph B8 of IFRS 11. Another Group member analyzed the fact pattern from a different perspective, noting that typically if one of two parties, each with joint control to a joint arrangement, sells its interest to the other party with joint control, the other party itself would obtain full control. However, in applying this logic to the fact pattern presented, if A were to sell its interest to B, B would still not have control of the arrangement because it would need C, D or E to make decisions about the relevant activities.

A question was raised as to the economics behind such a fact pattern. A few Group members observed that this fact pattern is common in practice because the voting structure provides

protection to the minority shareholders. That said, it is important to remember that in assessing for control or joint control, the ability to block decisions is not the only factor taken into account. Rather, control requires the unilateral ability to make decisions about the relevant activities in the arrangement either by a single party, or jointly together through one specific combination of the parties involved.

The Group's discussion raises awareness about the factors to consider in assessing for joint control. No further action was recommended to the AcSB.

(For a full understanding of the discussions and views expressed, listen to the [audio clip](#)).