

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2011/10

JOINT ARRANGEMENTS, AND INVESTMENTS IN ASSOCIATES AND JOINT VENTURES



Background

In May 2011 the International Accounting Standard Board (IASB) issued IFRS 11 *Joint Arrangements*¹, which supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. It addresses two weaknesses of IAS 31:

- a) the structure of the arrangement was the only determinant of the accounting.
- b) an entity had a choice of accounting treatment for interests in jointly controlled entities.

This meant that economically similar arrangements could be accounted for in different ways, while economically dissimilar arrangements could be accounted for in the same way.

IFRS 11 classifies joint arrangements into two types:

- a) joint operations.
- b) joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

In contrast to IAS 31, the legal structure of the arrangement is not a key factor in determining the accounting approach. Instead it is the parties' rights and obligations that are determining factors.

Scope

IFRS 11 applies to all entities that are party to a joint arrangement.

For joint operations, this means that its scope goes beyond the joint operators, and can extend to include entities that do not have joint control. For example, this might arise where two parties each have a 42.5% interest in a joint operation and have joint control, with a third party having a 15% interest in the joint operation. The contractual terms of each party's interest in the joint operation give it rights to the assets and obligations for the liabilities of the joint operation.

In this case, the third party does not have joint control, but does participate in the joint operation (by virtue of its 15% interest) and has rights to the assets and obligations for the liabilities relating to the joint operation. Consequently, the third party is required to account for its interest in the arrangement in accordance with IFRS 11, even though it does not have joint control of the arrangement, because of its rights and obligations.

In contrast, a party that participates in, but does not have joint control of, a joint operation and does not have rights to the assets and obligations for the liabilities relating to that joint operation accounts for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

A party that participates in a joint venture, but does not have joint control, accounts for its interest in the arrangement in accordance with the standard applicable to that interest, i.e. IAS 28 (2011) as an investment in an associate, or in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement* as a financial instrument.

STATUS

Final

EFFECTIVE DATE

Annual periods commencing on/after 1 January 2013.
Earlier application permitted.

ACCOUNTING IMPACT

May be significant.

¹ The IFRS was published concurrently with four other standards: IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 (as amended in 2011) *Investments in Associates and Joint Ventures* and IAS 27 (as amended in 2011) *Separate Financial Statements*.

Therefore, in example 1, entity C would account for its interest in the joint arrangement in accordance with IAS 28 (2011), unless it did not have significant influence over the joint venture, in which case it would account for it in accordance with IFRS 9/IAS 39. On the other hand, in example 2, entities A, B and C are not within the scope of IFRS 11 since the arrangement does not meet the definition of a joint arrangement. In this case, A, B and C would account for their interests in the arrangement in accordance with the standard applicable to their respective interests.

Joint Arrangements

A joint arrangement is an arrangement under which two or more parties have joint control. A joint arrangement has the following characteristics:

- a) the parties are bound by a contractual arrangement.
- b) the contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement can give rise to either a joint operation or a joint venture.

Joint Control

Joint control is the contractually agreed sharing of control of an arrangement. It exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing the control of the arrangement. For this purposes, 'relevant activities' are as defined in IFRS 10 being activities of the arrangement that significantly affect its returns.

An arrangement can be a joint arrangement even when not all of its parties have joint control of the arrangement. IFRS 11 distinguishes between parties that have joint control of a joint arrangement (joint operators and joint venturers) and parties that participate in, but do not have joint control of, a joint arrangement (those parties hold a simple investment).

A two step approach is followed in assessing whether an entity has joint control of an arrangement.

First, an entity assesses whether all the parties, or a subset of the parties, control the arrangement. The IFRS 10 definition of control is used to determine whether all of the parties, or a subset of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a subset of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities), they control the arrangement collectively.

Secondly, an entity assesses whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement.

Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. For example, assume two parties establish an arrangement in which each has 50% of the voting rights and the contractual arrangement between them specifies that at least 51% of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

In other circumstances, the contractual arrangement might require a minimum proportion of the voting rights to make decisions. 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.

Example 1:

Three parties establish an arrangement in which entities A, B and C have 50, 30 and 20 per cent of the voting rights in the arrangement, respectively. The contractual arrangement specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities. Therefore, even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The contractual terms mean that A and B have implicit joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

Example 2:

Three parties establish an arrangement in which entities A, B and C have 50, 25 and 25 per cent of the voting rights in the arrangement, respectively. The contractual arrangement specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities. Therefore, even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement; however, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (i.e. either A and B or A and C). In this situation joint control does not exist. In order for a joint arrangement to arise, the contractual arrangement among the parties would need to specify which combination of them is required to agree about decisions in respect of the relevant activities.

Example 3:

An arrangement has two major shareholders, A and B, which each have 35 per cent of the voting rights with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. Therefore, A and B do not have joint control of the arrangement. This is because either A or B could, in combination with anything in excess of 15% of the other holders of voting rights, control the arrangement. Joint control would exist only if the contractual arrangement specified that in addition to a majority of the voting rights, decisions about the relevant activities of the arrangement required the agreement of both A and B.

Protective rights:

If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of the arrangement, that party is not a party with joint control of the arrangement.

Protective rights are defined in IFRS 10, and are rights that are designed to protect the interests of the party that holds them without giving that party control over the entity to which those rights relate. Examples of protective rights are:

- a lender's right to restrict the activities of a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender; and
- the right of a party holding a non-controlling interest in another to approve that other entity's capital expenditure of amounts greater than a specified threshold, or to approve the issue of equity of debt instruments.

Clauses on the resolution of disputes:

A contractual agreement may include clauses on the resolution of disputes such as arbitration (arbitration is where a contractual arrangement provides that in the event of a dispute, the issue will be referred to a third party in order for the outcome to be determined).

These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled. This is because such provisions do not give one of the parties a casting vote over relevant activities, instead providing for the initiation of an arbitration process.

Classification of Joint Arrangements as Joint Operations or Joint Ventures

The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

When assessing the parties' rights and obligations arising from the arrangement, it is necessary to consider the following:

- a) the structure of the joint arrangement.
- b) when the joint arrangement is structured through a separate vehicle:
 - (i) the legal form of the separate vehicle;
 - (ii) the terms of the contractual arrangement; and
 - (iii) when relevant, other facts and circumstances.

These are considered in more detail below.

a) Structure of the Joint Arrangement

A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

The contractual arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to manufacture a product together, with each party being responsible for a specific task and each using its own assets and incurring its own liabilities. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the contractual arrangement.

In other cases, the parties to a joint arrangement might agree to share and operate an asset together. In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each of the parties accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the contractual arrangement.

b) Joint Arrangement Structured Through a Separate Vehicle

A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

(i) The Legal Form of the Separate Vehicle

The legal form of the separate vehicle can be relevant when assessing the type of joint arrangement. For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities held in the separate vehicle are the

assets and liabilities of the separate vehicle and not the assets and liabilities of each of the parties to the joint arrangement). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their contractual arrangement and, when relevant, other facts and circumstances can override the assessment by the legal form of the separate vehicle and result in it being accounted for as a joint operation.

Careful assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is required. In order for it to be concluded that the arrangement is a joint operation, there must not be separation of rights and obligations between the parties and the separate vehicle. However, this might also be achieved through the terms of a contractual arrangement.

(ii) Assessing the Terms of the Contractual Arrangement

In many cases, the rights and obligations agreed in the contractual arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured. However, parties might use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

Example:

Assume that two parties structure a joint arrangement in an incorporated entity in which each party has a 50 per cent ownership interest. That incorporation results in the legal separation of the entity from its owners and, in consequence, the assets and liabilities held in the incorporated entity are its own assets and liabilities. The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.

However, the parties have also modified the features of the corporation through a separate contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for its liabilities in a specified proportion. Such contractual modifications can cause an arrangement to be a joint operation rather than a joint venture.

When a contractual arrangement specifies that the parties have rights to the assets and obligations for the liabilities relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances for the purposes of classifying the joint arrangement.

(iii) Other Facts and Circumstances

When the terms of the contractual arrangement do not specify that the parties have rights to the assets and obligations for the liabilities relating to the arrangement, it is necessary to consider other facts and circumstances in order to determine the classification of the joint arrangement.

Example:

Assume that two parties structure a joint arrangement in an incorporated entity in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The entity's legal form initially indicates that the assets and liabilities held in the entity are the assets and liabilities of the entity. The

contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities. Accordingly, it appears that the arrangement is a joint venture. However, the parties also consider the following aspects of the arrangement:

- under the terms of the arrangement, the parties have agreed to purchase all the output produced by the entity in a ratio of 50:50. The entity cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- the price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by the entity. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

From the fact pattern above, it can be concluded that:

- the obligation of the parties to purchase all the output produced by the entity reflects the exclusive dependence of the entity upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of the entity.
- the fact that the parties have rights to all the output produced by the entity means that the parties have rights to all the economic benefits of the assets of the entity.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the arrangement in these circumstances would not change if, instead of the parties (the joint operators) using their share of the output themselves in a subsequent manufacturing process, they sold their share of the output to third parties.

If the parties changed the terms of the contractual arrangement so that the arrangement was able to sell output to third parties, this would result in the entity assuming demand, inventory and credit risks. In that scenario, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. Such facts and circumstances would indicate that the arrangement is a joint venture.

Transactions between an Entity and a Joint Operation

When a joint operator enters into a transaction with a joint operation, such as a sale or contribution of assets, such transactions are in effect transactions with other parties to the joint operation. Therefore, IFRS 11 requires the joint operator to recognise gains and losses resulting from such transactions only to the extent of the other parties' interests in the joint operation. Similarly, when a joint operator enters into a transaction with a joint operation, such as a purchase of assets, it shall not recognise its share of gains and losses until it resells those assets to a third party.

Transactions between a joint venturer and a joint venture are accounted for in accordance with IAS 28 (2011) (see below).

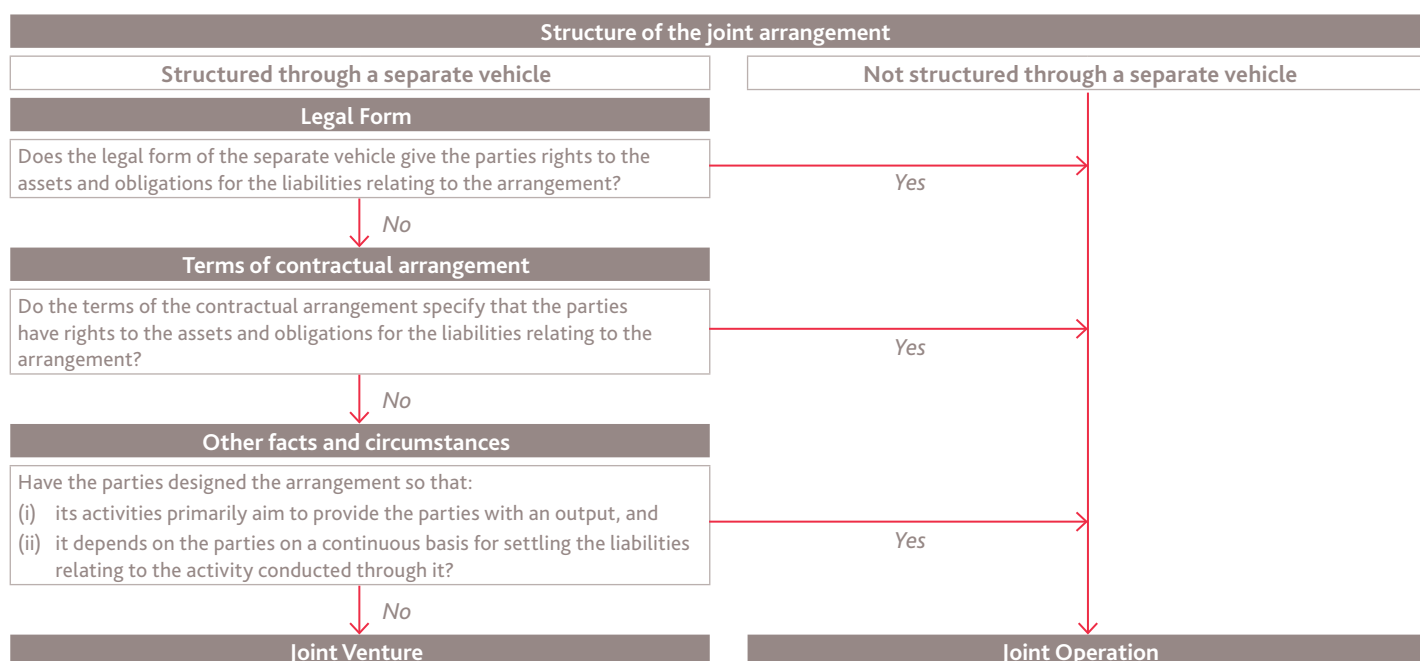
IAS 28 (2011): Investments in Associates and Joint Ventures

The joint ventures project resulted in the issue of an amended version of IAS 28. The main objective of the amendment was to incorporate the accounting for joint ventures into the standard, and to include in the standard, in respect to both associates and joint ventures, the principles of SIC 13 as this interpretation was superseded by IFRS 11.

In revising IAS 28, the definition of 'significant influence' has not been reconsidered, and therefore, remains unchanged. Consequently, it was also agreed upon not to change the requirements regarding potential voting rights when assessing whether an entity has significant influence over an investee. Consequently, the requirements of IAS 28 (2011) in respect of potential voting rights are inconsistent with the requirements of IFRS 10.

Principal changes include:

- Incorporating the accounting for joint ventures into IAS 28 (as the required approach is now equity accounting only, with the choice of proportionate consolidation having been eliminated);
- The accounting treatment for investments in associates and joint ventures that are held by, or are held indirectly through, venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds;
- Classification of an interest, or portion of interest, in an associate or a joint venture as held for sale;
- Discontinuing the use of the equity method; and
- Incorporation of SIC 13.



These are considered in more detail below.

a) Incorporating the accounting for joint ventures into IAS 28

IAS 28 was reworded to specify that the implementation of the equity method also applies to investments in joint ventures (since the equity method is applicable to both joint ventures and associates). Once an entity has determined (using the guidance in IFRS 11) that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method in accordance with IAS 28 (2011), unless the entity is exempted from applying the equity method as specified in the standard.

b) The accounting treatment for investments in associates and joint ventures that are held by, or are held indirectly through, venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds ('venture capital organisations')

Prior to the amendment, investments in joint ventures and associates held by venture capital organisations, when those investments were accounted for at fair value through profit or loss, were excluded from the scope of IAS 31 and IAS 28 (2003), respectively. During its discussion, the IASB observed that those scope exceptions related not to the fact that these arrangements do not have the characteristics of joint arrangements or those investments are not associates, but to the fact that for investments held by venture capital organisations, fair value measurements provides more useful information for users of the financial statements than the application of the equity method. Accordingly, it was decided to maintain the option that permits venture capital organisations to measure their interests in joint ventures and associates at fair value through profit or loss, but to clarify that this is an exemption from applying the equity method rather than an exemption of scope. In addition, the exception was extended to include investments in associates and joint ventures that are held indirectly through venture capital organisations (previously, the scope exception applied only to direct holding of joint ventures and associates by venture capital organisations). As a result, IAS 28 (2001) applies to all entities that are investors with joint control of, or significant influence over, an investee.

Additionally, the IASB received a request to clarify whether different measurement bases can be applied to two or more portions of an investment in an associate when one or more portions of the investment are not accounted for using the equity method, but are instead measured at fair value through profit or loss.

The IASB noted that two views exist with respect to measurement:

View A identifies all direct and indirect interests held in the associate either by the parent or through any of its subsidiaries, and then applies IAS 28 to the entire investment in the associate. Accordingly, there is only one investment in the associate and it should be accounted for as a single unit.

View B identifies all direct and indirect interests held in an associate, but then allows the use of the measurement exemption to portions of the investment that are held by venture capital organisations, regardless of whether those entities have significant influence over their portion of the investment in the associate.

The IASB agreed with view B and therefore amended IAS 28 accordingly. Nevertheless, the equity method still applies to the group's remaining portion of the investment in that associate. However, the IASB decided not to provide equivalent guidance on the partial use of fair value for the measurement of investments in joint ventures, because the IASB thought that such events would be unlikely in practice.

The IASB also discussed whether the partial use of fair value should be allowed only if the venture capital organisation designated its portion of the investment in the associate at fair value through profit or loss in its own financial statements. It was decided that the parent should be able to measure the portion held by the venture capital organisation at fair value through profit or loss, in accordance with the group's perspective, regardless of whether this portion of investment is measured at fair value through profit or loss in the venture capital organisation's financial statements.

c) Classification of an interest, or portion of interest, in an associate or a joint venture as held for sale

The exposure draft Improvements to IFRSs published in August 2009 had proposed to require an entity to classify as held for sale its interest in an associate, or in a jointly controlled entity, when it is committed to a sale plan involving loss of significant influence or loss of joint control. Those proposals aimed to clarify that all the interest ('the whole interest') an entity had in an associate or a joint venture had to be classified as held for sale, similarly to when classifying a subsidiary as held for sale.

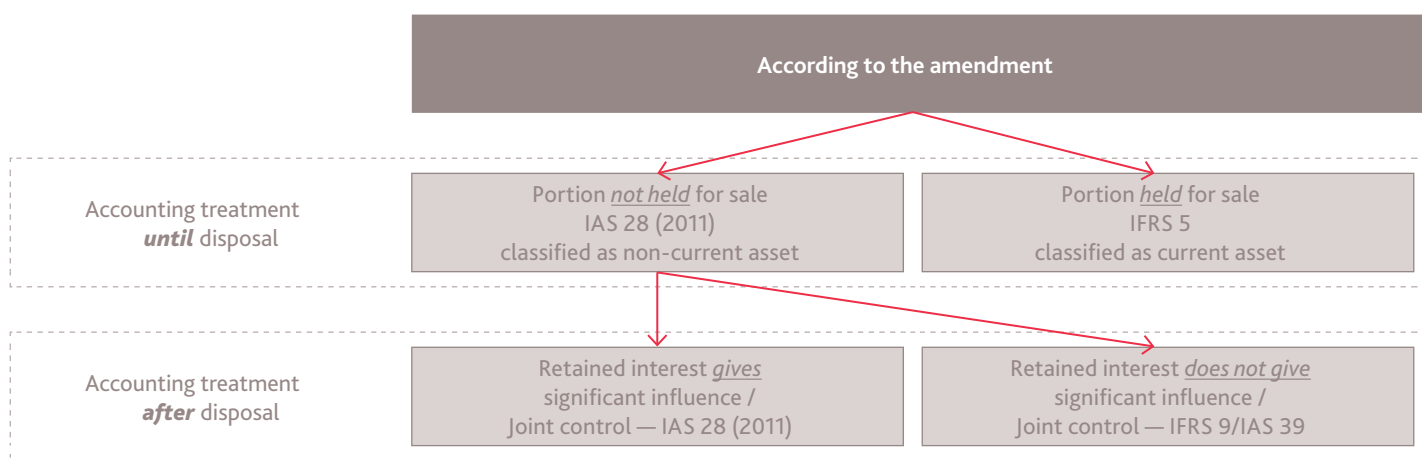
However, during the redeliberation of the joint ventures project, it was observed that those proposals (which were ultimately not taken forward) were not aligned with the decisions to remove all descriptions that associated the loss of joint control and the loss of significant influence with the term 'significant economic event' as introduced in the second phase of the project on business combinations (see below for further discussion of this point).

Therefore, it was decided that classifying an interest as held for sale should be on the basis of whether the intended disposal (or partial disposal) meets the criteria for classification as held for sale, rather than on whether an entity has lost joint control of, or significant influence over, that interest.

In addition, in the case of partial disposal, an entity is required to maintain the use of the equity method for its retained interest in the joint venture or associate until the portion classified as held for sale is finally disposed of. This is because, even if the entity has the intention of selling a portion of an interest, until it does so it still has significant influence over, or joint control of, that investee.

Accordingly, when applying IAS 28 (2011), a partial disposal is accounted for as follows:

- (i) An entity may classify an investment (or portion thereof) as held for sale only if it meets the criteria to be classified as held for sale;
- (ii) Any interest, or portion of an interest, in an associate or a joint venture that is not classified as held for sale is classified as a non-current asset;
- (iii) Any retained portion of the investment that has not been classified as held for sale is accounted for using the equity method until the disposal of the portion that is classified as held for sale, at which point the accounting is reassessed prospectively;
- (iv) After the disposal takes place, any retained interest is accounted in accordance with IFRS 9/IAS 39, unless the retained interest continues to be an associate or a joint venture, in which case the entity continues to use the equity method; and
- (v) In the event that an investment that has been classified as held for sale subsequently no longer meets the criteria to be so classified, the equity method is required to be applied on a retrospective basis.



d) Discontinuing use of the equity method

Previously, if an entity lost joint control but retained significant influence, or vice versa, it was considered to be a significant economic event that warranted remeasurement of the retained interest at fair value with the difference to be recognised in profit or loss. As noted above, IAS 28 (2011) amended that accounting treatment by requiring that in such a case the retained interest is not remeasured.

The IASB decided to change its decision in the second phase of the business combination project to characterise loss of joint control or loss of significant influence as a significant economic event (in the same way that loss of control is characterised as a significant economic event). The IASB concluded that although they are significant, these events are fundamentally different from the loss of control of a subsidiary. In the case of loss of control, the cessation of the parent-subsidiary relationship results in the derecognition of assets and liabilities because the composition of the group changes. However, if joint control or significant influence is lost the composition of the group is unaffected with the interest continuing to be reported as a single equity accounted line item in the investor's consolidated balance sheet.

It was also noted that retaining the characterisation of significant economic event in the case of loss of joint control or significant influence when the retained interest is a financial asset is unnecessary. This is because IFRS 9/IAS 39 already require that in such cases the retained interest is measured at fair value.

In addition, it was also clarified that the reclassification to profit or loss of a proportionate amount of any gain or loss previously recognised in other comprehensive income on partial disposal (i.e. when an investor's ownership interest in an associate is reduced, but the investment continues to be an associate) should only be made if such reclassification is required on disposal of the related assets or liabilities. For example, cumulative exchange differences relating to a foreign operation are reclassified to profit or loss, while a revaluation surplus would be transferred directly to retained earnings.

e) Incorporation of SIC 13

In the joint ventures project, it was decided to extend the requirements and guidance in IAS 28 for 'downstream' and 'upstream' transactions between an entity and its associate, to the accounting for transactions between an entity and its joint venture.

Along with the incorporation of the accounting treatment for joint ventures into IAS 28, it was also decided to incorporate into the standard the consensus of SIC 13 regarding non-monetary contributions made by a venturer to a jointly controlled entity in exchange for equity interests, and to extend it to associates.

SIC 13 established three exceptions for the recognition of gains/losses attributable to the equity interests of the other parties. These were:

- The significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the Jointly Controlled Entity;
- The gain or loss on the non-monetary contribution cannot be measured reliably; or
- The contribution transaction lacks commercial substance, as that term is described in IAS 16.

However, only the exception concerning transactions that lack commercial substance was carried forward into IAS 28.

Prior to the amendment, in the event of an investor contributing an associate in exchange for an equity interest in a joint venture, an inconsistency existed between the guidance in IAS 28 (2003), which required any gain or loss resulting from the disposal of the associate to be recognised in full in profit or loss, and the guidance in SIC 13 (in applying IAS 31) which required the venturer to recognise in profit or loss only the portion of the gain or loss attributable to the equity interests of the other parties. Following the amendments as described above, this inconsistency has been eliminated with a gain or loss being recognised only to the extent of unrelated investors' interests in the investment.

In the event of an investor contributing a subsidiary to an associate or a joint venture, it would seem that the above inconsistency has not been eliminated, as IFRS 10 still requires the full recognition of any gain or loss in profit or loss resulting from the disposal. However, this is because IFRS 10 focusses on loss of control as being a significant economic event, as noted above.

Disclosure Requirements for Joint Arrangements and Associates

As part of the redeliberation of ED 9 and ED 10 *Consolidated Financial Statements*, the IASB decided to align the disclosures relating to the holding of interests in subsidiaries, joint arrangements (both joint operations and joint ventures), associates and unconsolidated structured entities and to integrate them within a single standard, IFRS 12 *Disclosure of Interests in Other Entities*.

IFRS 12 requires an entity to disclose information about significant judgments and assumptions made in determining the nature of its interest in another entities and/or arrangements (e.g. control vs. joint control), and in determining the type of joint arrangement in which it has an interest.

Disclosure requirements for all interests in joint arrangements and associates

IFRS 12 sets out disclosure requirements that are intended to enable users to evaluate the nature, extent and financial effects of an entity's interests in joint arrangements and associates. To provide such information, IFRS 12 sets specific disclosure requirements for joint arrangements and associates that are material to the reporting entity, which include:

- its name;
- the nature of the entity's relationship with the investee;
- principal place of business; and
- proportion of ownership interests or participating share held and, if different, the proportion of voting rights held (if applicable).

Disclosure requirements for each material joint venture and associate

These include whether the investment in the joint venture or associate is measured using the equity method or at fair value, together with summarised financial information for each joint venture or associate which includes at least the following:

- current assets;
- non-current assets;
- current liabilities;
- non-current liabilities;
- revenue;
- profit or loss from continuing operations;
- post-tax profit or loss from discontinued operations;
- other comprehensive income; and
- total comprehensive income.

In addition, for each material joint venture, disclosure is required of the amounts of:

- cash and cash equivalents;
- certain current financial liabilities;
- certain non-current financial liabilities;
- depreciation and amortisation;
- interest income;
- interest expense; and
- income tax expense or income.

The summarised financial information is required to be on the basis of the amounts included in the investee's IFRS financial statements before inter-company eliminations (and not the entity's share of those amounts), although these amounts should be adjusted to reflect the adjustments made by the entity when using the equity method (such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies).

For individually immaterial joint ventures and associates, disclosure is required, in aggregate, of the following:

- profit or loss from continuing operations;
- post-tax profit or loss from discontinued operations;
- other comprehensive income; and
- total comprehensive income.

Disclosure is also required of commitments made which have not been recognised at the reporting date relating to its interests in joint ventures. This includes an entity's share of commitments made jointly with other investors with which it shares joint control over a joint venture. Such commitments are not only commitments to provide financial support, but also include, for example, commitments to acquire another party's ownership interest.

An entity with interests in associates or joint ventures may also have exposure to contingent liabilities relating to those interests. Those exposures are required to be reported separately from the entity's own contingent liabilities.

Effective Date

IFRS 11, IFRS 12 and IAS 2008 (2011) are effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted. However if an entity applies any of the standards earlier, it is required to apply the others at the same time together with IFRS 10 and IAS 27 (2011). As an exception, entities are encouraged to provide the enhanced disclosures required by IFRS 12 before its effective date, but this in itself does not compel entities to adopt the other new standards early.

Transition**Joint ventures – transition from proportionate consolidation to the equity method**

When changing from proportionate consolidation to the equity method, an entity recognises its investment in the joint venture as at the beginning of the earliest period presented. That initial investment is measured at the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the goodwill is allocated to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

The opening aggregated balance of the above investment is regarded as its deemed cost at initial recognition. IAS 28 (2011) is then applied to the opening balance of the investment to assess whether the investment is impaired and any impairment loss is recognised as an adjustment to retained earnings at the beginning of the earliest period presented. The initial recognition exception in paragraphs 15 and 24 of IAS 12 *Income Taxes* does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated. Consequently, the transition to the new standards may result in an adjustment to an entity's deferred tax provision.

If aggregating all previously proportionately consolidated assets and liabilities results in a net liability position, an entity assesses whether it has legal or constructive obligations in relation to the net liabilities and, if so, recognises the corresponding liability. If it is concluded that there are no legal or constructive obligations in relation to the net liabilities the corresponding liability is not recognised, with an adjustment being made to retained earnings at the beginning of the earliest period presented. In such cases, disclosure is required that this approach has been followed, along with a note of the cumulative unrecognised share of losses of joint ventures as at the beginning of the earliest period presented and at the date at which IFRS 11 is first applied.

Disclosure at Transition

Disclosure is required of a breakdown of the assets and liabilities that have been aggregated into a single line investment balance (investments in associates) as at the beginning of the earliest period presented. That disclosure is prepared on an aggregated basis for all joint ventures to which an entity applies the transition requirements.

Joint operations – transition from the equity method to accounting for assets and liabilities

When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity is required, at the beginning of the earliest period presented, to derecognise the investment that was previously accounted for using the equity method, and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IAS 28 (2011), and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

An entity's interest in the assets and liabilities relating to the joint operation is determined on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. The initial carrying amounts of the assets and liabilities are measured by disaggregating them from the carrying amount of the investment at the beginning of the earliest period presented. Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of IAS 28 (2011), and the net amount of the assets and liabilities, including any goodwill, recognised is accounted for as follows:

- a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the beginning of the earliest period presented, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.
- b) adjusted against retained earnings at the beginning of the earliest period presented, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.

The initial recognition exception in paragraphs 15 and 24 of IAS 12 *Income Taxes* does not apply when the entity recognises assets and liabilities arising from an investment in a joint venture as a result of applying the transition requirements for joint ventures that had previously been equity accounted. Consequently, the transition to the new standards may result in an adjustment to an entity's deferred tax provision.

Disclosure at Transition

An entity changing from the equity method to accounting for assets and liabilities is required to provide a reconciliation between the carrying amount of the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the earliest period presented.

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