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Joint Ventures

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Objective

1. The objective of the project is to improve financial reporting for those activities within the scope of IAS 31 *Interests in Joint Ventures*. The proposals in the exposure draft are concerned principally with remedying two aspects of IAS 31 that the Board considers to be an impediment to high quality reporting of joint arrangements - namely, that the form of the arrangement is the primary determinant of the accounting and that an entity has a choice of accounting treatment for interests in jointly controlled entities.

Next due process step

2. An Exposure Draft was published in September 2007. The Board plans to publish an IFRS, IFRS X *Joint Arrangements*, in the first quarter of 2011.

Due process steps completed

3. *Stage 1: Setting the agenda*

It was added to the agenda in November 2004. Work on this project commenced in December 2005 as part of the short-term convergence project with the FASB.

4. *Stage 2: Project planning*

This project is being conducted by the IASB only. The Board has not reconsidered all of the requirements in IAS 31 therefore a working group was not considered necessary for this project.

5. *Stage 3: Development and publication of a discussion paper*

A discussion paper was not considered necessary for this project. The objective of the project was to eliminate the choice in IAS 31 and clarify the definitions of the different types of joint arrangement.

6. *Stage 4: Development and publication of an exposure draft*

An exposure draft, ED 9 *Joint Arrangements*, was published on 13 September 2007 for public comment ([click here for a copy of the exposure draft](#))

Completion Date

7. An IFRS, IFRS X *Joint Arrangements*, is expected to be published in the first quarter of 2011.

Background

8. IAS 31 *Interests in Joint Ventures* and APB 18 *The Equity Method of Accounting for Investments in Common Stock*, prescribe the current accounting treatment for interests in joint ventures:
- IAS 31 permits two possible accounting treatments for jointly controlled entities, the equity method or proportionate consolidation.
 - APB 18 generally requires the equity method, some industries are outside the scope of APB 18, such as the construction or extractive industries, and proportionate consolidation is applied.
9. Other differences between the two standards exist and are explained in Appendix A. [Click here for the Appendix.](#)

Project history: Tentative decisions to date

10. At the December 2005 meeting the Board agreed to consider the accounting in joint ventures within the short-term convergence project. The Board discussed the two alternative treatments in IAS 31 of proportionate consolidation or the equity method for accounting in interests in jointly controlled entities. The Board decided to limit the scope of the project to the two following issues:

- (a) to address the major difference between IAS 31 *Interests in Joint Ventures* and US GAAP, that is, the option in IAS 31 of accounting for joint venture entities using proportionate consolidation. The Board decided to remove the option of accounting for jointly controlled entities using proportionate consolidation; and
 - (b) to consider the existing definition of a joint venture and the differences between a joint venture entity and direct interests in assets and liabilities of a joint arrangement.
11. The Board decided not to address other differences at this time. Doing so would be inconsistent with the Board's recent decision to work towards short-term convergence by addressing major differences only.
12. In March 2006 the Board discussed papers on the definition of a joint venture prepared by staff of the Australian Accounting Standards Board, who were leading the long-term research project on joint ventures. The Board decided that the driver for accounting by participants in joint arrangements should be their contractual rights and obligations that are created by the arrangement, rather than whether the arrangement is of a particular form. Participants should account separately for rights to share the net results or outcome of the arrangement's operations and any right they hold, such as rights of use. The Board decided that the research project should be suspended; pending the outcome of developments in current Board projects, such as the consolidation and conceptual framework projects and, in particular, this project.
13. In July 2006 the Board decided that interests parties have in a joint arrangement should be classified as either:
- direct interests whereby parties have contractual rights to individual assets or contractual responsibility for individual liabilities [now referred to as interests in joint operations or joint assets]; or
 - indirect assets whereby parties have rights to a share of the 'net' common outcome expected to be generated from a group of underlying assets and liabilities under the joint control of all of the venturers [now referred to as interests in joint ventures].

A party to a joint arrangement recognises its contractual rights to assets and contractual obligations (interests in joint operations or joint assets) in accordance with applicable standards. A venturer would recognise its right to a share of the outcome expected to be generated from a group of assets and liabilities subject to joint control (interest in a joint venture) using the equity method.

14. In July 2006 the Board also agreed that, in the absence of circumstances indicating otherwise, an interest in a jointly controlled business would represent an interest in a joint venture. In this regard, the existence of a business is a useful

indicator that a joint venture exists but it is not conclusive in itself. Parties should always look at the contractual rights and obligations they have in the arrangement.

15. In October and November 2006, the staff held discussions with preparers to better assess the likely practical effects of the Board's proposals. The staff consulted preparers from the extractive, real estate, pharmaceutical, branded goods and insurance industries. The proposals are expected to have little effect for arrangements that involve joint operations or joint assets (known as jointly controlled operations and jointly controlled assets in IAS 31). Some preparers have rights to assets and responsibility for liabilities of jointly controlled entities that they account for using proportionate consolidation in accordance with IAS 31. For those preparers, the proposal would require them to recognise those rights and obligations as assets and liabilities in accordance with applicable standards. A change from recognising interests in a jointly controlled entity using proportionate consolidation to the recognition of interests in the assets and liabilities of the entity is not expected to change significantly the amounts recognised. The Board's proposals would require equity accounting only when venturers have interests in a joint venture.
16. At its November 2006 meeting, the Board directed the staff to prepare an exposure draft of amendments to IAS 31 based on the decisions taken by the Board at its meetings in December 2005, March 2006 and July 2006.
17. In April 2007, the staff presented a draft of the proposed amendments to IAS 31 to the Board. The draft included illustrative examples on which the staff had already sought and received feedback from some real estate preparers, oil and gas preparers, accounting firms and other standard setters. The Board was generally supportive of the examples, and the staff will prepare the exposure draft incorporating the feedback received from the Board and those interested parties.
18. In June 2007, the Board discussed the disclosure requirements to be included in the exposure draft of proposed amendments to IAS 31 *Interests in Joint Ventures*. The main changes to the current disclosure requirements of IAS 31 that the Board tentatively decided to add for interests in joint ventures accounted for using the equity method are:
 - (a) the reporting date of the financial statements of a joint venture, when it is different from that of the venturer, and the reason for using a different date.
 - (b) the nature and extent of any significant restrictions on the ability of joint ventures to transfer funds to the venturer.
 - (c) the unrecognised share of losses of a joint venture, if the venturer has discontinued recognition of its share of losses of a joint venture in accordance with the equity method.

The Board also tentatively decided that a venturer should present separately its share of profit or loss, its share of other comprehensive income and its share of

any discontinued operations of joint ventures. As a consequence the Board tentatively decided to delete the disclosures required by IAS 28 *Investments in Associates* paragraph 37(h) and (i): those disclosures relate to associates that are not accounted for using the equity method.

The Board also tentatively decided that:

- (a) an entity should apply the proposed amendments to IAS 31 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and
- (b) the consensus of SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* should be incorporated into IAS 31.

19. In July 2007, the Boards discussed whether it is appropriate to measure at fair value the investment retained when an investor loses joint control but retains significant influence. A consequence of the proposals in the draft exposure draft is that the investor would use the equity method both when it has joint control and when it has significant influence, ie there would be no change in the basis of accounting on loss of joint control but retention of significant influence. The Board tentatively decided that, for practical reasons, in such circumstances an investor should not remeasure at fair value the investment it retains.

The Board also tentatively decided that the exposure draft would propose a new IFRS for joint arrangements, rather than a revision of IAS 31 *Interests in Joint Ventures*.

20. In September 2007 the IASB issued the Exposure Draft ED 9 Joint Arrangements. The comment period ended on 11 January 2008.
21. At the April 2008 Board meeting the staff presented a summary of the comment letters received. The Boards discussed the main issues raised and reaffirmed the principles in the Exposure Draft. The Board recognised that many respondents had a different interpretation and assessment of the implications of the model proposed from those of the Board and asked the staff to seek the views of additional users and to contact some of the respondents in order to gain a better understanding of their concerns.
22. In May 2009 the staff started the redeliberations with the Board. The areas brought to the Board were the result of the feedback obtained from the comment letters, the broad consultation performed subsequently to the comment letter presentation and the analysis of real contractual arrangements. The main areas presented and the decisions tentatively decided by the Board at this meeting are:
- (a) to replace the term ‘shared decision-making’ by ‘joint control’ for all types of joint arrangement.

- (b) to merge 'joint operations' and 'joint assets' into a single type of joint arrangement called 'joint operation'.
 - (c) that a joint arrangement could comprise both a joint operation and a joint venture, but each need to be a complete arrangement in its own right and not merely a residual.
 - (d) that, for a joint arrangement established in a separate entity, it is necessary to consider all relevant facts and circumstances to assess whether the arrangement is a joint operation or a joint venture. There should not be a rebuttable presumption that the arrangement is a joint venture.
23. In June 2009 the Board discussed how participants in a joint arrangement should account for their interest in the arrangement if they do not have joint control. The Board tentatively decided:
- (a) to introduce a term such as 'investor in a joint arrangement' to designate parties to joint arrangements that do not have joint control in the arrangement.
 - (b) that an investor in a joint arrangement that is a joint operation should account for its assets, liabilities, revenues and expenses arising from the joint operation.
 - (c) that an investor in a joint arrangement that is a joint venture should account for its interest in accordance with IAS 39 or, if it has significant influence in the joint venture, in accordance with IAS 28.
24. The Board also tentatively decided that a party with an interest in a joint operation shall recognise the assets or the shares of the assets it controls, classified according to the nature of the assets.
25. In December 2009 the Board discussed the inconsistency between IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The inconsistency relates to the accounting for gains and losses resulting from contributions of non-monetary assets to jointly controlled entities. The Board tentatively decided not to resolve the inconsistency within the Joint Ventures project, but to deal with it separately. The Board tentatively decided to incorporate the requirements in SIC-13 and any guidance relating to the equity method for joint ventures as a consequential amendment to IAS 28 *Investments in Associates*.
26. The Board also discussed the comments received on the section of ED 9 relating to the accounting for transactions between the parties and their joint arrangements. The Board tentatively decided:
- (a) not to incorporate the requirements in SIC-13 that significant risks and rewards of ownership have been transferred to the arrangement and that gain or losses need to be measured reliably for the recognition of gains or losses arising from contributions of non-monetary assets. The condition relating the reliability in the measurement has not been considered

necessary to be carried over because this is a statement already included in the *Framework* when discussing recognition.

- (b) to incorporate the requirement that the transaction should have commercial substance for the recognition of gains and losses arising from contributions of non-monetary assets.
 - (c) to incorporate from IAS 31 the requirement of full recognition of losses when the contribution, sale or purchase provides evidence of a reduction in the net realisable value or recoverable amounts of the assets contributed, sold or purchased.
 - (d) to clarify in the final standard that when a joint operation is structured through an entity, transactions between the parties and the joint operations are, in essence, transactions between the parties themselves.
27. In February 2010 the Board tentatively decided to modify the scope paragraph of ED 9 to state that the IFRS should be applied by all entities in accounting for interests in joint arrangements. The requirement for venture capital organisations or mutual funds, unit trusts and similar entities including investment-linked insurance funds that upon initial recognition are designated as at fair value through profit or loss to measure their investment at fair value in accordance with IFRS 9 or IAS 39 will be placed in the measurement section of the new IFRS. In addition, the Board tentatively agreed to amend the scope paragraph in IAS 28 as a consequential amendment in the IFRS to align IAS 28 with the decisions described above.
28. The Board also tentatively decided to remove all descriptions that associate loss of joint control and loss of significant influence in existing IFRSs with the term 'significant economic event'. The Board tentatively decided to retain this term for the event of loss of control.
29. In addition, the Board tentatively decided:
- (a) to confirm that the requirements for the loss of joint control proposed in ED 9 would be carried into the IFRS.
 - (b) to amend IAS 21 *The Effects of Changes in Foreign Exchange Rates* to treat the loss of joint control over a joint venture that includes a foreign operation but in which the investor retains significant influence as a partial disposal instead of a disposal.
30. In March 2010 the Board tentatively decided that Jointly Controlled Entities (JCEs) will transition from proportionate consolidation to the equity method, by aggregating at their respective carrying values the proportionate consolidated assets and liabilities into a single line item. The investment will need to be tested for impairment in accordance to IAS 36 *Impairment of Assets* at the date at which the standard is applied, and at the corresponding comparative periods.

31. The Board also had a preliminary discussion relating to the transitional provisions for JCEs that will have to transition their accounting from the equity method to the accounting for shares of assets and liabilities. The Board reached no decisions on this issue, but, they stated that the objective for these transitional provisions should be for an entity to account for the (shares of) assets and liabilities retrospectively.
32. In March 2010 the Board also discussed disclosures. The Board tentatively decided:
- (a) to align the disclosure objectives for joint arrangements and associates;
 - (b) not to require disclosure of the basis of joint control;
 - (c) to require a list and description of investments in individually-material joint arrangements and associates;
 - (d) to require that an entity discloses commitments relating to its joint arrangements, including its share of commitments incurred jointly with other parties;
 - (e) to require an entity to disclose contingent liabilities relating to its joint arrangements and associates, including its share of contingent liabilities incurred jointly with other parties or investors;
 - (f) not to require summarised financial information for joint operations;
 - (g) that the summarised financial information to be presented for joint ventures and associates should be the same, independently of the measurement method by which the joint venture or associate is being accounted for; and
 - (h) to align the disclosure of information relating to the fact that a joint venture or associate is not accounted for using the equity method, and to provide the fair value of investments in joint ventures and associates for which there are published price quotations.
33. In May 2010, the board discussed the interaction between IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and loss of joint control/significant influence, disclosures and transitional provisions. The decisions tentatively reached by the Board in each of these areas are summarised below.

Interaction between IFRS 5 and loss of joint control/significant influence

34. The IASB tentatively decided that when an entity partially disposes of an interest in a joint venture or in an associate it shall reclassify as held for sale only the interest disposed of if such partial disposal fulfils the criteria for classification as held for sale set out in IFRS 5. The retained interest should continue to be accounted for using the equity method until the disposal occurs.
35. The Board also tentatively decided to extend the requirement of accounting for an interest in a joint operation that is classified as held for sale in accordance with

IFRS 5 if an entity is committed to a sale plan that fulfils the criteria for classification as held for sale set out in IFRS 5.

36. The Board additionally agreed to clarify that if an interest (or a portion of an interest) in a joint venture or in an associate or an interest in a joint operation no longer meet the criteria to be classified as held for sale, an entity shall amend the financial statements for the periods since classification as held for sale.

Disclosures

37. The Board tentatively decided:
- (a) to replace the qualifier 'significant' by the qualifier 'individually material' in the disclosure requirement of a list and description of interests in joint arrangements and associates;
 - (b) that the summarised financial information for individually-material joint ventures and associates shall be presented on a hundred per cent basis and that an entity should disclose its net interest amount in those joint ventures and associates that are not individually material;
 - (c) that the summarised financial information provided by associates should include current assets, non-current assets, current liabilities, non-current liabilities, revenues and profit or loss;
 - (d) that an entity shall disclose commitments and contingent liabilities in relation to its joint ventures separately. There will be no requirement for an entity to disclose commitments and contingent liabilities in relation to its joint operations separately, because these will be included in the reporting entity's own disclosures; and
 - (e) not to specifically address which disclosure requirements venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds need to fulfil in the case where these entities have an interest in a joint venture or an investment in an associate.

Transitional provisions

38. The Board tentatively decided that the transitional provisions for Jointly Controlled Entities (JCEs) from the equity method to the accounting for share of assets and liabilities will consist in the derecognition of the investment, and the recognition of the shares of assets and liabilities at their carrying values based on the entity's interests determined in accordance with the contractual arrangement. Any difference between the carrying amount of the investment and the carrying net amount of the individual assets and liabilities will be recognised in retained earnings.
39. The Board additionally tentatively decided that an entity shall provide a reconciliation between the investment derecognised and the breakdown of the

shares of assets and liabilities recognised, together with any balance recognised in retained earnings.

40. The Board also discussed transitional provisions for first-time adopters. The Board tentatively decided that the main difference between the transitional provisions for first-time adopters and for those entities reporting under IFRS will be:
- (a) a first-time adopter will need to convert its investment in a jointly controlled entity to an IFRS basis; and that
 - (b) in the case of transitioning from proportionate consolidation to the equity method, the resulting investment will have to be tested for impairment in accordance with IAS 36 *Impairment of Assets* regardless of whether there is any existing indication that the investment might be impaired.
41. Redeliberations with the Board of the main areas of the standard have been finalised. Any forthcoming public meetings will aim to cover any sweep issues encountered by the staff when drafting the final IFRS.

Contact Information

42. Staff contacts:
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