Frequently Asked Questions

IFRS 11 JOINT ARRANGEMENTS

This FAQ has been prepared by staff for the convenience of interested parties; it does not reflect the official views of the IASB and does not provide official guidance on how to apply or use the standard.

About the joint ventures project and IFRS 11 Joint Arrangements

Why did the IASB decide to undertake the project?	The project was initially undertaken by the IASB as part of its Memorandum of Understanding with the FASB, with the objective of reducing existing differences between the IFRS and US standards. The project also represented the first major revision of IAS 31 *Interest in Joint Ventures* since it was issued in 1990. In particular, the IASB wanted to remedy two aspects of IAS 31 that impede high quality reporting of joint arrangements: first, in IAS 31 the structure of the arrangement was the only determinant of the accounting and, second, an entity had a choice of accounting treatments for interests in 'jointly controlled entities'. As well as considering these two matters the IASB also took the opportunity to improve the requirements for disclosing information about joint arrangements.
What are the main differences between IAS 31 and IFRS 11?	The accounting requirements in IAS 31 were driven only by whether the arrangements were **structured through an entity**. For example: 'jointly controlled operations' and 'jointly controlled assets' were arrangements in IAS 31 that did not require the existence of an entity. Parties were simply required to recognise assets, liabilities, revenues and expenses arising from the arrangements. However, when the same arrangements were structured through an entity, IAS 31 classified them as 'jointly controlled entities' and offered parties an accounting choice between proportionate consolidation and the equity method. Under the new requirements the accounting for joint arrangements **will be driven by a principle**, namely that parties should recognise their rights and obligations arising from the arrangements. The parties' rights and obligations will result in either the

	recognition of assets and liabilities and corresponding revenues and expenses or in the recognition of an investment. IFRS 11 provides application guidance to assist entities in **determining precisely whether they have rights to assets and obligations for liabilities** (in which case, the parties have an interest in a joint operation) **or whether they have rights to the net assets of an arrangement** (in which case, the parties have an interest in a joint venture). An entity will be required to apply judgement when assessing its rights and obligations arising from the arrangements, because this will determine the classification of the arrangements.
What are the main differences between the exposure draft ED 9 and IFRS 11?	The exposure draft presented three types of arrangements ('joint operations', 'joint assets' and 'joint ventures'). During its redeliberations the IASB decided to merge 'joint operations' and 'joint assets' into a single arrangement called 'joint operations'. As a result, the requirements in IFRS 11 **simplify the number of possible types of joint arrangements** by reducing them to two ('joint operations' and 'joint ventures'). **Each type of joint arrangement is aligned with a specific accounting requirement** (a party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement whereas a party to a 'joint venture' recognises an investment). Another important difference between IFRS 11 and ED 9 is that IFRS 11 provides **enhanced guidance to help entities in classifying the arrangements**. This guidance aims to help an entity to assess its rights and obligations arising from the arrangements by considering different 'sources' of rights and obligations, such as the *structure* of the arrangement and, where the arrangement is structured using a separate vehicle, the *legal form* of this vehicle, the *terms of the contractual arrangement* and, when relevant, *other facts and circumstances*. **'Disclosures' is another area that has been changed**. In particular, the disclosures for summarised financial information for joint ventures: ED 9 had proposed less detailed summarised financial information for each material joint venture, whereas IFRS 11 requires summarised financial information to enable users to have a better understanding of the net debt position and profitability of each material joint venture.

Proportionate consolidation	
Why has the IASB decided to remove proportionate consolidation?	**The accounting for joint arrangements in IFRS 11 is driven by the principle** that parties to a joint arrangement must recognise their rights and obligations arising from the arrangement. In some instances, the application of this principle will result in parties recognising assets, liabilities, revenues and expenses relating to their arrangements and, in other instances, it will result in parties recognising an investment. The IASB is removing proportionate consolidation as it is defined in the IFRS. However, it is not preventing a party to a joint arrangement from recognising individual assets and liabilities and the related revenue and expenses when that party has rights to them.
Why has the IASB changed its mind in relation to its perception about proportionate consolidation? IAS 31 did not recommend the use of the equity method because that standard stated that proportionate consolidation better reflected the substance and economic reality of an entity's interest in a jointly controlled entity.	**The IASB believes that the 'economic substance' of the arrangement is defined by the rights and obligations assumed by the parties when carrying out the activities of the arrangement.** As a result, 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. This is the core principle of IFRS 11. In that respect, the IASB observes that many respondents **relate economic substance to situations where the activities undertaken through joint arrangements are closely related to the activities undertaken by the parties on their own**, or to situations where the parties are closely involved in the operations of the arrangements. For these respondents, the method that better reflects this proximity between the entity's own activities or close involvement and the activities carried out through joint arrangements is proportionate consolidation. The IASB thinks that this interpretation of 'economic substance' is unsatisfactory because in some instances the activities carried out by the parties to joint arrangements can be **operationally very similar**, but the contractual terms agreed by the parties to these joint arrangements **can confer on the parties very different rights to the assets and obligations for the liabilities relating to such activities**. As a result the IASB believes that, by requiring an entity to recognise its rights and obligations arising from its joint

	arrangements, the core principle of IFRS 11 more faithfully represents the economic substance of those arrangements.
What are the differences between proportionate consolidation and recognition of assets, liabilities, revenues and expenses arising from a joint operation?	In the majority of cases, accounting for assets and liabilities gives the same outcome as proportionate consolidation would have done. There are only two main differences between recognising assets, liabilities, revenues and expenses relating to a joint operation and proportionate consolidation. First, IFRS 11 requires an entity with an interest in a joint operation to recognise assets, liabilities, revenues and expenses of the joint operation **as specified in the contractual arrangement**, rather than basing the recognition of all assets, liabilities, revenues and expenses on the **ownership interest** that the entity has in the joint operation. Second, the parties' interests in a joint operation are **recognised in their separate financial statements**. There is no difference between amounts recognised in the parties' separate financial statements and in the parties' consolidated financial statements, whereas in IAS 31 the parties' interests in jointly controlled entities in their separate financial statements were represented by an investment measured at cost or in accordance with IFRS 9 *Financial Instruments*.

Classification of the arrangements	
How can an entity determine whether it has an interest in a joint operation or in a joint venture?	One of the main differences between the two standards is that **IFRS 11's classification of the arrangements will require entities to apply judgement** when assessing their rights and obligations arising from the arrangements, whereas in IAS 31 the classification was triggered by, first, the structure of the arrangements and, second, when structured in a legal entity, the choice between proportionate consolidation and the equity method. The guidance in IFRS 11 will assist entities to assess their rights and obligations by setting out those indicators an entity should consider: **the structure** and **legal form** of the arrangement, **the terms agreed by the parties** in the contractual arrangement and, when relevant, **other facts and circumstances**. Other facts and circumstances include consideration of whether the parties designed the arrangement so that its trade is substantially only with its parties (ie the parties have rights to substantially all the economic benefits of the assets placed in the separate vehicle), with the result that the arrangement continuously depends on the parties for settling the liabilities relating to the activity conducted through the arrangement.
How could 'joint operations' and 'joint ventures' be described in a few words?	Joint operations are arrangements **for which the parties have rights to the assets and obligations for the liabilities**, as in all of these situations: - when the arrangements are not structured through a separate vehicle (ie the arrangements are structured through a contractual arrangement only). - when the arrangements are structured through separate vehicles, the arrangements will be joint operations when: (a) the legal form of the separate vehicle does not cause the vehicle to be considered in its own right (ie the assets and liabilities placed in the separate vehicle are the assets and liabilities of the parties and not the assets and liabilities of the separate vehicle). (b) the arrangement is structured in a separate vehicle that can be considered in its own right but the terms agreed by the parties in their contractual arrangement modify the features of

	the legal form and cause the assets and liabilities held in the separate vehicle to be the parties' assets and liabilities. (c) even though the legal form and the terms of the contractual arrangement do not confer on the parties rights to the assets and obligations for the liabilities, the arrangement has been designed in such a way that the parties have rights to substantially all the economic benefits of the assets placed in the separate vehicle. In addition, the arrangement is continuously dependent on the parties for settling the liabilities relating to the activity conducted through the arrangement. Joint ventures are arrangements in which **the parties have rights to an investment**. Joint ventures are arrangements structured in separate vehicles that have the following features: (a) the legal form of the separate vehicle and contractual terms agreed by the parties do not confer on the parties rights to the assets and obligations for the liabilities of the activities carried out; and (b) they have been designed to have a trade on their own, which makes them face directly the risks arising from activities such as demand, credit or inventory risks.

Effects of the new IFRS (financial and operational)	
How will the new IFRS reshape the financial statements?	IFRS 11 **will not change** the accounting for arrangements that in IAS 31 were ‘jointly controlled operations’ and ‘jointly controlled assets’. These types of arrangement will be ‘joint operations’ in IFRS 11 and will have the same accounting. **The accounting will, however, be affected for arrangements that in IAS 31 were ‘jointly controlled entities’**. For these types of arrangements, entities will have to determine whether they have an interest in a ‘joint operation’ or in a ‘joint venture’. The effect on the financial statements of IFRS 11 will depend on this determination and on the accounting method that the entity was using for its jointly controlled entities in IAS 31. So, for example, if the entity was accounting for its ‘jointly controlled entity’ using proportionate consolidation and the arrangement will, under IFRS 11, be a ‘joint operation’, the changes will be minimal. But if this same ‘jointly controlled entity’ was being accounted for using the equity method, the entity will have to change from the equity method to accounting for assets and liabilities. Conversely, if the entity was accounting for its ‘jointly controlled entity’ using proportionate consolidation and this arrangement is now a ‘joint venture’, that entity will have to change the accounting for the arrangement from proportionate consolidation to the equity method.
Has the IASB considered whether the changes brought in by IFRS 11 could cause entities to change the way they operate?	The IASB does not expect that entities will change the way in which they operate but rather that the IFRS will cause entities, when analysing their arrangements, to focus their assessment on two main aspects: (a) whether they control or jointly control an arrangement; and (b) the assessment of their rights and obligations arising from the arrangements.

Disclosure	
What are the main disclosure requirements of the new IFRS?	The disclosure requirements for joint arrangements are included in IFRS 12 *Disclosure of Interests in Other Entities*, separately from the accounting requirements. The disclosure requirements aim to **capture the nature, extent and financial effects** of an entity's interests in joint arrangements as well as **the nature of the risks** associated with an entity's interests in joint ventures. The main disclosure requirements consist of a list of all individually material joint arrangements, summarised financial information about each material joint venture and separate disclosure of commitments and contingent liabilities relating to joint ventures.

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<tr><th colspan="2">US GAAP Convergence</th></tr>
<tr><td>How aligned are the requirements to US GAAP?</td><td>The project aligns US GAAP and IFRSs more closely. However, due to the large amount of industry-specific requirements for joint arrangements under US GAAP, the requirements will not be fully aligned.

The IASB expects that convergence will be closer for arrangements structured in corporations where US GAAP requires the use of the equity method. There will, however, be some instances where parties with arrangements structured in corporations will have an interest in ‘joint operations’ under IFRSs and, consequently, parties will account for assets and liabilities under IFRSs, whereas under US GAAP these parties would still account for their arrangements using the equity method.

The main difference relates to the definitions of ‘joint arrangement’ and ‘joint control’:

(a) US GAAP limits the term ‘joint arrangements’ to ‘corporate joint ventures’. In IFRS 11 the definition is broader and encompasses non-entity arrangements (ie contracts) and arrangements structured through any type of entity (incorporated or unincorporated).

(b) The term ‘joint control’ in US GAAP is referred to only in the industry guidance for real estate (formerly SOP 78-9 Accounting for Investments in Real Estate Ventures). In IFRS 11 the term ‘joint control’ is not restricted to specific industries but is a feature that is common to all joint arrangements regardless of the industry. However, the definition itself under US GAAP (‘joint control occurs if decisions regarding the financing, development, sale, or operations require the approval of two or more of the owners’) is potentially wider than the definition of joint control in IFRS 11, because the nature of the decisions that might need the agreement of ‘two or more of the owners’ is not defined as necessarily being decisions on the ‘relevant activities’.</td></tr>
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Transition and effective date	
What are the transition requirements?	The main transition requirements affect arrangements that were accounted for proportionately under IAS 31. Some of these arrangements will now need to be accounted for using the equity method while others will have to recognise assets, liabilities, revenues and expenses. In the first case, the IASB decided that **an entity should not adjust retrospectively** any differences between the proportionate consolidation and equity method, but should instead aggregate the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated into a single line investment as at the beginning of the earliest period presented. In the second case, when changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, the IASB decided that an entity shall derecognise the investment at the beginning of the earliest period presented and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation. In this case, an entity would recognise its share of each of the assets and the liabilities relating to the joint operation at their carrying amounts **on the basis of the information used by the entity in applying the equity method**, **instead of remeasuring** its share of each of those assets and liabilities at the date of transition.
What is the effective date of IFRS 11?	The effective date of IFRS 11 is for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies IFRS 11 earlier, it must disclose that fact and apply IFRS 10, IFRS 12, IAS 27 (as amended) and IAS 28 (as amended) at the same time.