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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **20 July 2006, London**

Project: **Short-term Convergence: Interests in Joint Ventures**

Subject: **Drafting Plan (Agenda Paper 12C)**

Introduction

1. The staff thought that the Board might find it helpful to have an idea of how the staff expects to implement the Board's [tentative] decisions. This paper describes the plan the staff has for amending IAS 31. The staff is not asking the Board to make any decisions about these plans.

2. Short-term convergence generally focuses on differences that can be resolved in a relatively short time and can be addressed outside major projects. Taking into account these considerations and based on the Board's tentative decisions, the staff proposes to limit the amendments to IAS 31 *Interests in Joint Ventures* to the following issues*:*

   - the elimination of the option of proportionate consolidation of interests in jointly controlled entities;

- a clarification of the differences between an indirect interest in the outcome expected to be produced by a group of assets and liabilities and a direct interest in underlying single assets or liabilities of a joint arrangement; and
- in addition, the staff intends to clarify in the scope that interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* shall not apply the equity method and shall be required to be accounted for in accordance with that IFRS.

The staff does not propose reconsidering any other aspect of IAS 31.

Specific staff proposals

3. The staff intends retaining the basic structure and to make only those changes necessary to implement the Board's [tentative] decisions.

Scope

4. The staff intends to modify the scope section of the standard to clarify that interests in jointly controlled entities classified as held for sale shall not apply the equity method and shall be required to be accounted for in accordance with IFRS 5. This is in response to concerns the staff has received about whether the application of IFRS 5 is mandatory in these circumstances or was a voluntary exemption available to venturers that can also decide to apply instead the equity method or proportionate consolidation.

Forms of joint venture

5. The standard identifies three broad types: jointly controlled operations, jointly controlled assets and jointly control entities. The standard makes an overall introduction about the common characteristics of a joint venture (joint control and a contractual arrangement) and, then, describes the characteristics of each of the three types that lead to a particular accounting treatment.

6. The staff intends to retain the existing classification but is proposing the following changes:

- After paragraph 12 and before entering into each type of arrangement an introduction will be inserted explaining how in a joint arrangement participants can have direct and indirect interests in underlying assets and liabilities and both may coexist simultaneously.

- The amendments will clarify that the three types identified are described, for illustrative purposes, as examples of typical arrangements existing in certain industries in practice. For reasons of simplicity and clarity in the exposure, the standard shows examples of pure arrangements that fall into one category only.

- The standard will clarify that the three broad types of arrangements are not watertight compartments. Therefore, participants should assess the rights and obligations arisen from the contract and whether they represent direct or indirect interests. In consequence an arrangement might involve, for example, one or more jointly controlled assets that should be recognised in accordance with paragraphs 18-23 as amended, but it might also involve the running of a business arrangement in which participants have indirect interests, which should be recognised in accordance with 24-47 as amended.

7. Finally the staff shall propose eliminating the option of proportionate consolidation of indirect interests (the existing paragraphs 30-37).

Effective date and transitional provisions

8. The staff has in mind as a workable effective date [Sentence omitted from observer notes], giving effect the normal rule of allowing preparers at least one year to adapt their reporting to the proposed amendments. Earlier application would be encouraged. However the proposed effective date shall not be included in the Exposure Draft.

9. The staff has not yet considered transitional provisions.

Application Guidance

10. The staff intends to add an Appendix A to the standard with some application guidance.

11. They will contain guidance on how to identify direct and indirect interests in underlying assets and liabilities of a joint arrangement. They will also include some examples with scenarios of typical arrangements and an economic analysis of how participants should identify and account for their interests in the arrangements.