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This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **March 2006, London**

Project: **Joint Ventures Research Project - Research Team's Covering Note to the IASB (Agenda Paper 9A)**

Objective

1. The objective of this meeting, in relation to the joint ventures research project, is to decide the Board's views on:
 - (a) the three questions asked in paragraph 9 in relation to Papers I to III prepared by the research team; and
 - (b) whether it wants the research team to do more long-term research work, in the light of its decisions in December 2005 to:
 - (i) remove the option of proportionate consolidation from IAS 31 *Interests in Joint Ventures*; and
 - (ii) expand the scope of the short-term convergence project to consider how to define a joint venture.
2. The question in paragraph 1(b) essentially asks the Board whether it intends to devote meeting time to joint ventures in the foreseeable future once the joint ventures component of its Short-Term Convergence Project is completed. If it does not intend

to do so, perhaps the research team's time could be spent more productively on other activities. The AASB continues to offer staff resources to assist IASB staff on the joint ventures component of the Short-Term Convergence Project.

3. Papers I and II are the research team's primary papers on Phase I of the research project, and discuss issues relating to the definition of a joint venture. They are entitled, respectively:
 - (a) The Classification of Joint Arrangements; and
 - (b) The Definition of a Joint Venture.
4. Papers I and II were discussed at the meeting of National Standard Setters (NSS) with IASB representatives held on 13-14 March 2006 in Toronto. Paper III, entitled *Alternative Views on Papers I and II*, describes the main concerns and alternative views of parties who reviewed those papers, including discussants at the NSS meeting. Some proposals in Papers I and II have been controversial, and it is important to bear in mind the alternative views in Paper III when reading them.
5. [Not reproduced in observer note]
6. [Not reproduced in observer note]

Critical issues in Papers I and II

7. The definition stage of the research project addresses two critical issues:
 - (a) Identifying the nature of the asset or assets held by a participant in a joint arrangement; and
 - (b) Identifying the essential characteristics of joint control.
8. To address the first issue, Papers I and II argue that the distinction between "integrated resource arrangements" and "non-integrated resource arrangements" determines the nature of the asset or assets held by a participant. Paper II discusses indicators for identifying such arrangements in practice. The second issue, that is, identifying the essential characteristics of joint control, is examined from a conceptual point of view, and its practical implications are also discussed.

Questions for Board members

9. The research team seeks Board members' views on the following questions relating to Papers I-III:

- (i) Do Board members think specifying the concept of an “integrated resource arrangement” as an essential characteristic of a joint venture would help achieve the Board's stated goal of improving the distinction between control of an investment in a joint arrangement and control of underlying assets and liabilities used in the arrangement? (This relates to the IASB direction in paragraph 11(a) below.)
- (ii) Do Board members think the abovementioned goal would more likely be attained by:
 - (a) assessing, in respect of any joint arrangement, whether it is jointly controlled? and
 - (b) specifying the existence of a business, rather than an integrated resource arrangement, as an essential characteristic of a joint venture? (see Paper III)

In relation to question (ii)(b), “business” has the same meaning as in the definition of a business in the Exposure Draft of Proposed Amendments to IFRS 3. The objective of that question is to focus on the concept of a business, not its precise meaning under that definition.

- (iii) Do Board members agree with the analysis of interests in jointly controlled assets in the examples set out in Appendix 2 of Paper II?

Background

10. The IASB decided at its April 2003 meeting that the AASB should take responsibility for a broad research project on joint venture arrangements. It decided the project should initially address issues relating to IAS 31 *Interests in Joint Ventures*, with subsequent work to be scheduled on IAS 28 *Investments in Associates*.
11. The minutes of the IASB's April 2003 meeting contain the following IASB decisions regarding the direction of the research project:
 - (a) The project should consider improving the distinction between control of an investment and control of the underlying assets and liabilities. The Board noted that the distinction should be based on the substance of an arrangement and not on whether a legal entity exists, although the legal structure of a joint venture might have significant implications for the substance of an arrangement.
 - (b) It may be useful to examine whether there are three distinct types of joint venture arrangements—one in which a venturer controls underlying assets and liabilities, another under which a venturer controls interests in underlying assets and liabilities, and a third under which a venturer controls rights to share in the activities of an entity.
 - (c) It would be useful to consider whether the equity method is suitable for accounting for interests in joint ventures, and the usefulness of the equity method in general. It was noted that the project should examine the alternatives of fair value (under IAS 39 *Financial Instruments: Recognition and Measurement*), the expanded equity method and the gross equity method.

Further, the IASB acknowledged the work of the G4+1 in the areas of joint ventures (1999) and equity accounting (unpublished).

12. In response, the AASB formed a Joint Ventures research project team ('the research team'), comprising staff from the standard-setters in Australia, Hong Kong, Malaysia and New Zealand in December 2003. A research project proposal was approved at the April 2004 National Standard Setters meeting. It outlined recommendations for

the research project's scope, the research methods to be used (including a draft questionnaire to conduct a joint ventures survey), and the research timetable.

Interaction with the short-term convergence project

13. In November 2004, the IASB staff presented a paper to the IASB proposing issues that should be addressed in a short-term convergence project. The Board concluded¹ that if it were to undertake the short-term project, it would need to address the following issues:
- (a) the nature of interests in jointly controlled entities, including:
 - (i) the substantive differences between an interest in a jointly controlled entity and other forms of joint arrangements, such as undivided interests in assets or groups of assets.
 - (ii) possible inconsistencies between the substance and form of jointly controlled entities, and the effect (if any) of legal form on the substance of such arrangements.
 - (b) which of the two methods (i.e. equity method or proportionate consolidation) more faithfully represents the economic substance of interests in jointly controlled entities.
 - (c) any differences between the notions of a jointly controlled entity in IFRSs and a corporate joint venture in US GAAP.
14. The Board asked IASB staff to contact the research team to determine when the team would be able to report its findings to the IASB. Pursuant to IASB's staff contacts with AASB staff, the research team oriented its papers, to the extent possible, towards addressing the short-term convergence project issues identified by the IASB Board at its November 2004 meeting.

¹ IASB Update, November 2004.

Research project's phases

15. The research project plan approved at the National Standard Setters meeting in April 2004 includes three phases:

A Definition phase

- the structures of joint ventures
- the substance of joint ventures and the effect of legal form on the substance
- the definition of a joint venture, including:
 - (a) the concept of joint control
 - (b) contractual arrangements as the basis for joint ventures; and
 - (c) the concept of an entity.

An Accounting Treatment phase

- the appropriate method of accounting by venturers for interests in joint ventures;

A Disclosure phase

- disclosures by venturers about interests in joint ventures

The project plan envisages the publication of a Discussion Paper and, if the IASB decides to move the project to its active agenda, an Exposure Draft and a revised Standard.

Independence of Phases

16. To ensure that considerations or preconceptions relating to later stages of the project do not affect the results of earlier stages, each stage is dealt with separately on a conceptual basis. Thus, the choice of accounting treatment and disclosures should not affect the work on the definition stage. Once a definition of a joint venture and other related definitions are agreed upon, the most appropriate accounting treatment will then be considered. Similarly, once the accounting treatment stage is finalised,

research on disclosures necessary to supplement the preferred accounting treatment will be progressed.

The progress of the research project

17. Following approval of the project plan in April 2004, a joint venture survey was undertaken as a first step to gather information on a number of key issues instrumental in progressing the project. For this purpose, a questionnaire was posted on the AASB's website in July 2004 and later on the IASB's website. Other standard setters also provided links to the AASB/IASB postings. The survey, which pledged confidentiality, attracted the attention of 54 respondents worldwide and provided useful information on the following issues:

- (a) The industries in which joint arrangements are most commonly used;
- (b) The legal instruments underlying joint arrangements;
- (c) Veto rights and joint control;
- (d) The legal form used for joint arrangements;
- (e) Whether the investor's participation in the arrangement is active or passive;
- (f) Whether the substance and form of joint arrangements differ;
- (g) The effect of form on substance, and characteristics affected by the form of joint arrangements;
- (h) Drivers for the choice of a particular form of an arrangement;
- (i) The nature of the items that investors control or have responsibility for; and
- (j) Accounting treatments currently being used for interests in joint arrangements.

[Remainder of paragraph not reproduced in observer note]

IASB meetings

18. Based on the original project plan approved in April 2004, the first set of papers (comprised of the results of the joint ventures survey) was planned to be presented to the IASB at its September 2004 meeting. However, the IASB staff noted the scarcity of IASB Board time, and it was agreed to conduct the project to a large extent at an IASB/AASB staff level. To ensure the IASB members' involvement in the process, AASB staff requested the nomination of IASB advisers for the project, which were announced in December 2004. In addition, Board time was requested for the IASB's April 2005 meeting, but the IASB advisers who had reviewed the papers observed that because the papers were related to the joint venture survey and the structures of joint ventures, they included material that did not require a decision by the IASB and should be dealt with out of session.
19. Based on the revised process, during the remainder of 2005, AASB staff continued working with the IASB advisers and IASB staff. Papers prepared on the first (definition) stage of the project were sent to IASB Board advisers in August 2005 and the papers were subsequently amended in the light of comments received.
20. Looking ahead, the following milestones are noted or suggested:
 - (a) All papers prepared to date will be presented at the IASB's March 2006 meeting. The papers include three papers on the definition stage of the project and five background papers containing the results of the survey, material on structures of joint ventures and a comparison of accounting treatments of interests in joint ventures across a number of jurisdictions.
 - (b) Should the IASB approve our approach on the definition stage and agree to continue with the research project in the light of changes to the scope of the short-term convergence project, the research team would be ready to present papers on the accounting treatment stage (Phase II) to the IASB in September/October 2006. That timing takes into account estimated time to be spent by AASB staff assisting IASB staff with the short-term convergence project.

Interdependencies

21. There are interdependencies between the research project and other IASB projects that need to be considered in progressing the research project. For example, the Revenue Recognition project and Leases project have developed or adopted a contractual rights and obligations model, thus departing from the risks and rewards model employed in existing Standards on those topics. The initial draft set of papers was prepared using a risks and rewards model, but the papers were later revised to use a contractual rights and obligations approach to be in tune with the IASB's long-term approach for recognition of assets and liabilities.
22. Another project relevant to this research project is the Consolidation project. Results of IASB deliberations on the concept of control and special purpose entities will be taken into account in progressing the research project as they occur.
23. Interdependencies other than those illustrated in paragraphs 21 and 22 may exist or subsequently arise as the result of other IASB projects being progressed. The general approach being taken in the joint ventures research project is to monitor, and take account of, developments in other projects as the research project progresses.

For-profit perspective

24. Consistent with paragraph 9 of the "Preface to International Financial Reporting Standards", which states that IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities, Papers I and II have been prepared from a for-profit perspective.