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International Accounting Standards Board

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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:	**21 June 2007, London**
Project:	**Short-term convergence: Joint ventures**
Subject:	**Sweep issues (Agenda paper 11)**

Introduction

1. This paper discusses three issues identified in drafting the exposure draft of proposed amendments to IAS 31 *Interests in Joint Ventures*:

    a. Disclosure in IAS 31

    b. Transitional provisions

    c. Incorporation of SIC-13 within IAS 31

2. [This paragraph is not reproduced for observers].

Staff recommendations

3. The staff recommends that the exposure draft of proposed amendments to IAS 31 should:

    a. include amended disclosure requirements as identified in paragraph 23 of this paper;

    b. delete two disclosures required by IAS 28 *Investment in Associates* as a consequential amendment [see paragraphs 8 to 12];

c. require retrospective application of the revised standard; and

d. incorporate the consensus of SIC-13 within IAS 31 using language consistent with that used in IAS 28 for upstream and downstream transactions [see proposed wording in paragraph 32 of this paper].

Staff analysis

Issue 1: Disclosure in IAS 31

4. IAS 31 requires the following disclosures:

> "54 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:
>
> (a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
>
> (b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
>
> (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
>
> 55 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:
>
> (a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
>
> (b) its share of the capital commitments of the joint ventures themselves.
>
> 56 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
>
> 57 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities."

Consistency with IAS 28

5. The exposure draft of proposed amendments to IAS 31 will propose that an entity recognises interests in joint ventures using the equity method. The staff would expect similar disclosure requirements of interests in joint ventures in IAS 31 as would be required for associates in IAS 28 given that an entity accounts for both joint ventures and associates using the equity method. The disclosure requirements in IAS 28 are much more extensive than those in IAS 31 presently, as shown in the table below. The staff's view is that many of the disclosure requirements of paragraphs 37, 38 and 39 of IAS 28 would be useful for any equity accounted investees (ie, joint ventures as well as associates), as follows.

Disclosure requirements of IAS 28 paragraphs 37, 38 and 39	**Disclosure requirements of IAS 31 paragraph 56**	**Staff recommendation**
[similar disclosure removed in the Improvements project in December 2003]	56 disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities	Retain the disclosure in IAS 31. Also required for joint ventures that are measured at fair value in accordance with IAS 39[1]. *[see paragraphs 13-15]*
37(a) the fair value of investments in associates for which there are published price quotations		Not relevant for joint ventures.
37(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss	56 disclose the aggregate amount of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses	Retain the disclosure with some changes to both IAS 28 and IAS 31. *[see paragraph 6]*
37(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence		Not relevant for joint ventures.

[1] At its May meeting, as part of the annual improvements process, the Board decided that an entity that measures its interests in joint ventures at fair value in accordance with IAS 39 should disclose a list and description of significant joint ventures.

37(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence		Not relevant for joint ventures.
37(e) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period		Add the disclosure to IAS 31.
37(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances		Add the disclosure to IAS 31. Also required for interests in joint ventures that are measured at fair value in accordance with IAS 39[2].
37(g) the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate		Add the disclosure to IAS 31.
37(h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13		Remove from IAS 28 as a consequential amendment. *[see paragraphs 7-12]*
37(i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss		Remove from IAS 28 as a consequential amendment . *[see paragraphs 7-12]*
38 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.		Add the disclosure to IAS 31.
39 The investor's share of changes recognised directly in the associate's equity shall be		Add the disclosure to IAS 31. *[The wording of this disclosure*

[2] At its May meeting, the Board decided that an entity that measures its investment in associates at fair value in accordance with IAS 39 should disclose the nature and extent of any significant restrictions on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

recognised directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by IAS 1 *Presentation of Financial Statements*.		*will change when the amendments to IAS 1 are final]*

6. The staff recommends aligning the summarised financial information requirements in IAS 28 with those in IAS 31 so that both standards require the same additional financial information relating to the equity method amounts recognised in the financial statements. That is, the exposure draft would propose requiring disclosure of the aggregate amounts of revenue and profit or loss relating to interests in joint ventures, rather than income and expenses as is required presently in IAS 31. In addition, as a consequential amendment, the exposure draft would expand paragraph 37(b) of IAS 28 to require disclosure of aggregated amounts for current and non-current assets, and current and non-current liabilities. We would also clarify that the summarised financial information disclosures are presented in total for all associates and in total for all joint ventures.

7. The staff does not propose including (h) and (i) of paragraph 37 of IAS 28 in IAS 31. Indeed, having reviewed those disclosures for associates, we recommend deleting (h) and (i) from IAS 28 for the reasons given in the following paragraphs.

Associates held for sale

8. Disclosure (h) refers to investments in associates that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Disclosure (i) requires summarised financial information of associates held for sale and those measured at fair value in accordance with IAS 39 (ie, associates held by venture capital organisations, mutual funds, unit trusts and similar entities). The Board added these disclosure requirements to IAS 28 as part of the improvements project in 2003. At that time and before the publication of IFRS 5, disclosure (h) referred to investments in associates acquired and held exclusively with a view to disposal within twelve months.

9. The Board included similar disclosures to (h) and (i) of paragraph 37 of IAS 28 in IAS 27 *Consolidated and Separate Financial Statements* as part of the improvements project (ie, (a) and (b) of paragraph 40 of IAS 27). Those disclosures related to investments in subsidiaries that were acquired and held exclusively with a view to disposal within twelve months. We understand that disclosures (h) and (i) of paragraph 37 were added to IAS 28 to be consistent with the disclosures of IAS 27. When the Board published IFRS 5 in 2004, it deleted those disclosure requirements in IAS 27 as a consequential amendment to IFRS 5. The Board did not consider it necessary to require disclosure of summarised financial information for subsidiaries held for sale. However, the Board did not delete disclosures (h) and (i) of paragraph 37 of IAS 28.

10. The staff does not think that disclosures (h) and (i) of paragraph 37 of IAS 28 are necessary. Regarding associates held for sale, the disclosure requirements of IFRS 5 should provide sufficient information. It would appear to be inconsistent to require summarised financial information using the equity method for associates held for sale given that:

    a. these disclosures are not required for subsidiaries or joint ventures held for sale, and

    b. IFRS 5 has determined that the most appropriate measurement for such investments is the lower of carrying amount or fair value less costs to sell.

Associates measured at fair value in accordance with IAS 39

11. Regarding investments in associates measured at fair value in accordance with IAS 39, the staff thinks that disclosure of summarised financial information is also unnecessary. The Basis for Conclusions on IAS 28 (BC5) notes that the Board decided not to require the equity method for such investments because use of the equity method ‘often produces information that is not relevant to their management and investors and that fair value measurement produces more relevant information.” The staff sees no reason to require disclosure of summarised financial information using the equity method when fair value

measurement is the most relevant measurement basis for these investments. It would be unnecessarily burdensome to require an entity to maintain accounting information using the equity method for disclosure purposes when the investments are managed on a fair value basis.

12. The staff understands that, at its May meeting, the Board proposed not to require an entity to disclose summarised financial information for joint ventures measured at fair value in accordance with IAS 39 as part of the annual improvements process. This staff recommendation would confirm that Board proposal and extend it to associates.

List and description of significant joint ventures

13. IAS 31 requires the disclosure of a list and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. The Board removed similar disclosures from IAS 27 and IAS 28 as part of the Improvements project in 2003 because they were not considered useful. [Such disclosures are still required when an entity presents separate financial statements].

14. In addressing the consistency of disclosures between IAS 28 and IAS 31, the staff considered whether we should propose to delete this disclosure in IAS 31. On speaking to a number of analysts, they all consider the disclosures to be very useful and indeed, would request that such disclosures are added back to IAS 27 and IAS 28. The staff, therefore, recommends retaining the requirement to disclose a list and description of significant joint ventures until such time that a more comprehensive review of disclosure is carried out.

15. [This paragraph is not reproduced for observers].

Capital commitments

16. Paragraph 55 of IAS 31 requires a venturer to disclose the aggregate amount of:

    a. any capital commitments of the venturer in relation to its interests in joint ventures and its share of the capital commitments that have been incurred jointly with other venturers, and

    b. its share of the capital commitments of the joint ventures themselves.

    The disclosures relate to jointly controlled operations, jointly controlled assets and jointly controlled entities as described in IAS 31.

17. IAS 28 does not require such disclosures. Thus, we considered whether these disclosures should remain in IAS 31.

18. The exposure draft proposes that a party to a joint operation or joint asset arrangement recognises assets, liabilities, income and expenses in accordance with applicable standards. IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Properties* require disclosure of contractual commitments for the acquisition of property, plant and equipment, intangible assets and investment properties. Therefore, a party is required to disclose capital commitments for those non-current assets if it has an interest in joint operations or joint assets.

19. The exposure draft proposes that a venturer recognises its interest in a joint venture using the equity method. The venturer's investment in the joint venture is its only asset in relation to the joint venture activities. A joint venture is not part of a group, which is made up of the parent and entities that it controls. Therefore, the question is whether it is useful to require capital commitment disclosures for interests in joint ventures, whereas such disclosures are not required for investments in associates or other equity investments outside the group.

20. We spoke to a number of analysts about capital commitment disclosures. Some think that the disclosures are useful for all types of joint arrangement. Whilst they acknowledge that IAS 16, IAS 38 and IAS 40 require disclosure of

contractual commitments, they often find that entities do not provide a lot of disclosure on such commitments. They believe that disclosure of capital commitments for joint arrangements, separate from other commitments, is useful because of the capital intensive nature of many joint arrangements (ie, parties often enter into joint arrangements because the capital investment required by the joint activities are significant and more than one party could undertake alone).

21. Others do not think that the disclosures need to be specifically required. Their view is that users interested in such information would undoubtedly require other information about the joint activities that is not available in the financial statements of the parties to the arrangement. They would, therefore, get that further information from another source in any event.

22. On balance, the staff's view is that IAS 31 should retain the capital commitment disclosure requirements of the parties to a joint arrangement. That is, IAS 31 should retain disclosures of any capital commitments of the parties relating to its interests in joint arrangements and its share in the capital commitments that have been incurred jointly with other parties (paragraph 55 (a)). However, we recommend deleting the disclosure of a party's share of the capital commitments of the joint arrangements themselves (paragraph 55 (b)). We think that it is confusing to include in the party's financial statements disclosure of capital commitments of joint ventures themselves because these are not capital commitments of the reporting group.

Staff recommendations

23. In summary, the staff recommends including the following disclosure requirements in the exposure draft of proposed amendments to IAS 31:

"41 A venturer shall make the following disclosures relating to interests in joint ventures:

(a) a list and description of interests in significant joint ventures and the proportion of ownership interest held; *[carried forward from IAS 31 paragraph 56. Also required for interests in joint ventures measured at fair value in accordance with IAS 39]*

(b) summarised financial information of joint ventures, including the venturer's interest in the amount of each of current assets, non-current assets, current liabilities, non-current liabilities, revenues and profit or loss. This disclosure is presented in total for all joint ventures; *[carried forward from IAS 31 paragraph 56 with some changes]*

(c) the reporting date of the financial statements of a joint venture, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the venturer, and the reason for using a different reporting date or different period; *[new disclosure consistent with IAS 28 paragraph 37]*

(d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of joint ventures to transfer funds to the venturer in the form of cash dividends, or repayment of loans or advances; *[new disclosure consistent with IAS 28 paragraph 37. Also required for interests in joint ventures measured at fair value in accordance with IAS 39]*

(e) the unrecognised share of losses of a joint venture, both for the period and cumulatively, if a venturer has discontinued recognition of its share of losses of a joint venture. *[new disclosure consistent with IAS 28 paragraph 37]*

42 A venturer shall classify interests in joint ventures accounted for using the equity method as non-current assets. The venturer shall disclose separately its share of the profit or loss of such joint ventures, and the carrying amount of those interests. The venturer shall also disclose separately its share of any discontinued operations of such joint ventures. *[new disclosure consistent with IAS 28 paragraph 38]*

43 A venturer shall recognise directly in equity its share of changes recognised directly in the joint venture's equity. The venturer shall disclose its share of those changes in the statement of changes in equity as required by IAS 1 *Presentation of Financial Statements*. *[new disclosure consistent with IAS 28 paragraph 39 – note: the wording of this disclosure will change when the amendments to IAS 1 are final]*

44 A party shall disclose the aggregate amount of the following commitments separately from other commitments:

(a) any capital commitments of the party relating to its interests in joint arrangements; and

(b) its share of capital commitments incurred jointly with other parties. *[carried forward from IAS 31 paragraph 55(a); paragraph 55(b) deleted. Also required for interests in joint arrangements measured at fair value in accordance with IAS 39]*

45 In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity shall disclose:

(a) any contingent liabilities incurred relating to its interests in joint arrangements; and

(b) its share of contingent liabilities incurred jointly with other parties. *[carried forward from IAS 31 paragraph 54(a); paragraph 54(b) and (c) deleted because the disclosure requirements of paragraph 54(b) and (c) are incorporated within the disclosure requirements of paragraph 54(a) reproduced here as paragraph 45(a)]*"

24. The staff also recommends deleting disclosures (h) and (i) of paragraph 37 of IAS 28 as a consequential amendment.

Issue 2: Transitional provisions

25. The proposed amendments to IAS 31 might result in any of the following changes to accounting for interests in joint arrangements:

   a. Proportionate consolidation to the equity method

   b. Proportionate consolidation to accounting for interests in individual assets and liabilities

   c. The equity method to accounting for interests in individual assets and liabilities

   d. Accounting for interests in individual assets and liabilities to the equity method

26. The staff views retrospective application as the best method of application because it will provide more comparable information in the financial statements of parties to joint arrangements.

27. In our view, a party to a joint arrangement should be able to access the information necessary to apply any of the above changes retrospectively from the beginning of the first period presented in its financial statements. That is, it

should be able to apply the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

28. The information required to account for interests in joint ventures using the equity method should be the same as that required to apply proportionate consolidation. It should also be readily available if the party had previously recognised individual assets, liabilities, income and expenses. If a party has contractual rights to and responsibility for individual assets and liabilities, it should have or be able to obtain information required to account for those contractual rights and obligations as assets and liabilities (and recognise the related income and expenses).

29. The staff recommends that IAS 31 requires retrospective application of the proposed amendments. IAS 31 would not, therefore, include transitional provisions.

Issue 3: Incorporation of SIC-13 within IAS 31

30. SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers* addresses accounting by the venturer when it contributes a non-monetary asset in exchange for an equity interest in a joint controlled entity. The consensus states that a venturer recognises in profit or loss the portion of any gain or loss attributable to the equity interests of the other venturers except when:

    a. the significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred;

    b. the gain or loss on the non-monetary contribution cannot be measured reliably; or

    c. the contribution transaction lacks commercial substance, as described in IAS 16.

    The consensus goes on to discuss what the venturer recognises if it also receives monetary or non-monetary assets, and how to present the unrecognised gain or loss.

31. The staff proposes to incorporate this consensus within IAS 31 because guidance on a topic is easier to find and use if it is located within one pronouncement. We consider the transaction discussed in SIC-13 to be similar to a ‘downstream’ transaction described in paragraph 22 of IAS 28[3]. Therefore,

[3] Paragraph 22 of IAS 28 describes ‘downstream’ transactions as, for example, sales of assets from the investor to an associate.

we propose to amend the wording of SIC-13 to be consistent with the wording in IAS 28 relating to upstream and downstream transactions with associates.

32. The staff recommends incorporating the consensus of SIC-13 by adding the following paragraph to the draft Standard:

> "When a venturer contributes a non-monetary asset to a joint venture in exchange for an equity interest in the joint venture, a venturer recognises in its financial statements a gain or loss resulting from the transaction only to the extent of unrelated investors' interests in the joint venture except when:
>
> (a) the venturer retains control of the contributed asset;
>
> (b) the gain or loss resulting from the transaction cannot be measured reliably; or
>
> (c) the transaction lacks commercial substance, as described in IAS 16 *Property, Plant and Equipment*.
>
> If (a), (b) or (c) applies, a venturer offsets the unrecognised gain or loss against its investment in the joint venture."