



---

Project **Joint Ventures**

Topic **Scope**

---

1. **The aim of this paper is to inform the Board of a recommended modification to the scope paragraph of ED 9 *Joint Arrangements* in the final standard and to ask for their views on it. The modification recommended in this Agenda Paper does not represent a technical change in the scope of the final standard. We have, however, considered it necessary to have a public discussion with the Board about this topic because the modification recommended might have implications for the scope paragraph in IAS 28 *Investments in Associates*.**
2. We have structured this Agenda Paper as follows:
  - (a) Modification proposed to the scope paragraph of the final standard on joint arrangements and reasons for such a modification
  - (b) Consequences of the proposed modification.

#### ***Modification proposed***

3. Paragraph 2 of ED 9 states:

‘This [draft] IFRS shall be applied by all entities to interests in *joint arrangements*, except interests in joint ventures held by:

  - (a) venture capital organisations, or
  - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit and loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.[...]
4. In this Agenda Paper we propose:

---

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

## IASB Staff paper

- (a) to change the wording of the scope to be ‘This IFRS shall be applied by all entities in accounting for interests in joint arrangements’; and
  - (b) to include that interests in joint ventures held by the entities listed in paragraph 2 (a) and (b) of ED 9 are permitted to use fair value instead of the equity method.
5. The rationale for the modification is as follows. We think that an entity first determines whether the arrangement in which it is involved is a ‘joint arrangement’ or not. When the entity has concluded that the arrangement is a ‘joint arrangement’ (ie a contractual arrangement exists, and the activities of the arrangement are jointly controlled), the arrangement is within the scope of the standard. This assessment (ie whether the arrangement is or is not within the scope of the standard) is independent of the fact that the specific arrangement is allowed to be measured using a measurement basis different from the measurement basis required in the standard.

### **Consequences**

#### *IAS 28*

6. IAS 28 has the same scope exclusion as in ED 9.<sup>1</sup> If the Board agrees to modify the scope paragraph in the final standard on joint arrangements, we intend to make a consequential amendment to IAS 28 accordingly, and moving the paragraphs that relate to the measurement attribute for interests in associates held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds into the measurement section of the standard.

---

<sup>1</sup> IAS 28.1 states: ‘This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by: (a) venture capital organisations, or (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds that upon initial recognition are measured at fair value through profit or loss in accordance with IFRS 9. An entity holding such an investment shall make the disclosures required by paragraph 37(f)’.

**Recommendation**

7. We recommend modifying the scope paragraph of the final standard on joint arrangements to clarify that joint arrangements held by ‘all’ entities are within the scope of the standard. Consequently, we also recommend amending the scope paragraph in IAS 28.
8. We note that this modification will not represent a technical change in the current requirements of ED 9 or IAS 28. Joint ventures held by ‘venture capital organisations, mutual funds, unit trusts and similar entities’ will still be within the scope of the final standard, because, it is necessary first to determine that these arrangements are ‘joint arrangements’. Interests in joint ventures held by these entities will continue to be allowed to use fair value with changes recognised in profit or loss instead of equity method, since according to IAS 31. BC5, the use of equity method ‘often produces information that is not relevant to their management and investors and [...] fair value measurement produces more relevant information in these circumstances.’

**Question 1**

Does the Board agree with the recommendation for modifying the scope paragraph in the final standard on joint arrangements and to subsequently amend the scope paragraph in IAS 28? In other words, does the Board agree with wording this as a measurement option only given to venture capital organisations, mutual funds, unit trusts and similar entities instead than as referring to this as a ‘scope exception’?