Project **Joint Venture**

Topic **Disclosures for Joint Arrangements and Associates**

1. This Agenda Paper **discusses the disclosure requirements for joint arrangements and associates.** As discussed at the Board meeting in February 2010, these disclosures form part of the comprehensive disclosure standard for a reporting entity's involvement with other entities that is not in the scope of IAS 39/IFRS 9.

2. This paper discusses the requirements proposed in ED 9 *Joint Arrangements* for joint arrangements and associates. For each of the proposals we provide the rationale behind our recommendations. We have put together the recommendations included in this paper on the basis of:

   (a) the proposals in ED 9 and the comments received from respondents relating to disclosures on joint arrangements and associates (the consequential amendments to IAS 28 *Investments in Associates* proposed by ED 9 are included in Appendix 1 of this Agenda Paper); and,

   (b) the subsequent outreach activities undertaken with preparers, analysts and users groups.

A disclosure principle for joint arrangements and associates

3. Before discussing the detailed recommendations we think the following general introduction is useful. One of the comment letters to ED 9 stated:

> 'we recommend that the disclosure section of the proposed Standard be recast, clearly setting out the core disclosure objectives and summaries of disclosures that meet those core objectives, in a similar way to the approach taken in

Standards such as IFRS 2 Share-based Payment and IFRS 3 Business Combinations'.[1]

4. We agree. Based on the discussions held with the Board in February 2010, we have the opportunity to align the disclosure requirements for different types of involvements with the ultimate goal to fulfil a common disclosure objective. We think that the disclosure objectives of an entity's involvement in joint arrangements and associates can be aligned.

5. Having said that, we think that the relationship between a party to a joint arrangement and the arrangement itself will generally be stronger than the relationship of an investor to an associate. This does not preclude both types of involvement to share a common disclosure objective. We think that the differing relationships mentioned above may warrant a different level of granularity in the disclosure requirements but should not result in differing disclosures objectives.

6. Consequently, in the case of joint arrangements and associates, useful disclosures should provide information on the nature of, extent of and financial effects relating to the entity's involvement with joint arrangements and associates (including the consequences of joint commitments with other venturers or investors).

Question 1
Keeping in mind the disclosure objectives for joint arrangements and associates as cited in paragraphs 4-6 above, does the Board agree with aligning the disclosure objectives for joint arrangements and associates?

Disclosure of the basis of joint control and significant influence

7. ED 9 does not require parties to a joint arrangement to disclose those situations in which significant judgement was involved when performing the assessment of joint control. IAS 28 however requires that an entity discloses:

[1] The source of this comment is comment letter CL 61.

> 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;
>
> 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.

8. When analysing whether to require a party to disclose significant judgement applied in assessing joint control, we note that a similar disclosure requirement was proposed in the exposure draft ED 10 *Consolidated Financial Statements*, as follows:

> 48. A reporting entity shall disclose information that enables users of its financial statements to evaluate:
> (a) the basis of control and the related accounting consequences; […]

9. The comments received from respondents to ED 10 on this proposed disclosure requirement are summarised as follows:

   (a) This requirement is already covered by paragraph 122 of IAS 1 *Presentation of Financial Statements*.[2]

   (b) The disclosure requirement seems to second-guess the judgement of management on whether to consolidate or not.

   (c) The disclosure requirement aims to cover the risk of not having provided the correct 'cut' in the control definition.

10. The assessment on the existence of joint control determines whether the arrangement is within or without the scope of the standard on joint arrangements.

11. We think that assessing joint control is most difficult when an entity has to conclude as to whether it controls or has joint control of another entity. We think that the term 'joint venture', as defined in IAS 31, is being used in instances where an entity is actually the 'parent' of a 'subsidiary', instead of

[2] IAS 1.122 states: 'An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations […], that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements'.

the ‘venturer’ of a ‘joint venture’. Additionally the consequences of such an assessment are significant—ie consolidating the other entity versus using the equity method. Nonetheless, we think that this disclosure is addressed by the requirement to disclose the Basis of Control, as proposed in ED 10 and as recommended by the staff in Agenda Paper 8H *Disclosure for subsidiaries* of this March Board meeting.

12. The other circumstance that such a disclosure would cover is the case where an entity has concluded that it has a joint arrangement instead of an associate. However, such a decision will have no effect on the accounting of the entity’s involvement. This is because parties with joint control and investors with significant influence in both joint operations and joint ventures have the same accounting.

13. We received consistent feedback from standard-setters user groups and preparer groups about the usefulness of this specific disclosure requirement. These constituents do not consider this disclosure to be a particularly necessary disclosure. Another user group believes it could be a useful disclosure when significant judgement has been applied and were less concerned about the potential redundancy with the requirement in IAS 1.122.

14. When aligning the requirements between joint arrangements and associates, we note that requirements in IAS 28 (see paragraph 7 above) states that an entity shall provide the reasons supporting the existence or not of significant influence when the entity’s holding percentage is less than 20% in the first case and more than 20% in the last case.

15. We note that the disclosure requirements in IAS 28 address identifying whether an entity’s interest is an associate or a financial asset (in accordance with IAS 39).

16. We propose to carry forward the requirements in paragraphs 37 (c) and 37 (d) of IAS 28, but we don’t think this specific requirement needs to be aligned by requiring disclosures for the basis of joint control.

Question 2
Does the Board agree with the staff's recommendation of not adding a requirement relating disclosure for the basis of joint control?

A list and description of investments in significant joint ventures, associates and subsidiaries

17. IAS 31 requires the disclosure of a list and description of interests in significant joint ventures and also of the proportion 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.

18. When the Board discussed disclosures before it issued ED9, the staff had spoken to a number of analysts, who considered these disclosures to be very useful. The staff therefore recommended retaining this disclosure requirement in IAS 31 and restoring similar disclosures in IAS 27 and IAS 28.

19. ED 9 proposed consequential amendments to IAS 27 and IAS 28[3] that would restore these disclosures. However, in drafting ED 9 the proposal limited the list of disclosures to *joint ventures* rather than the broader *joint arrangements* (the term *joint venture* in IAS 31 is the same set of arrangements as *joint arrangements* in ED 9). This means that it would not be a requirement to disclose a list and description of significant investments in joint operations, whereas it is a requirement in IAS 31. We recommend that the Board decide that the IFRS should require disclosure of a list and description of interests in significant *joint arrangements* (rather than *joint ventures*).

20. The vast majority of respondents to ED 9 welcomed the decision to restore the requirement in relation to subsidiaries and associates. Given this support,

[3] The disclosure requirement proposed in ED 9 to be introduced in IAS 28 is as follows: 'a list and description of investments in significant associates and the proportion of ownership held'.

we recommend that the Board confirm the proposed consequential amendments to IAS 28. The consequential amendment to IAS 27 is being addressed in the Consolidation project. We therefore note, and recommend, that there is no need for the Board to proceed with the consequential amendment to IAS 27 (refer to Agenda Paper 8H).

Question 3
Does the Board agree with the staff recommendation that: (a) the IFRS should require disclosure of a list and description of interests in significant *joint arrangements* (rather than *joint ventures*); (b) the consequential amendment restoring the equivalent requirement in relation to significant associates be confirmed; and (c) the proposed consequential amendment to IAS 27 is no longer needed in the final *Joint Arrangement* IFRS, because that decision will be made in the consolidation project.

Capital commitments

21. Paragraph 37 of ED 9 carried forward the requirements in IAS 31:

> 37. An entity shall disclose the aggregate amount of the following commitments separately from other commitments: (a) any capital commitments it has relating to its interests in joint arrangements; and (b) its share of capital commitments incurred jointly with other parties.

22. IAS 28 does not have any requirement covering this specific disclosure.

Joint operations

23. A few respondents to ED 9 questioned the need to provide disclosures relating to capital commitments for all types of joint arrangement. In relation to ‘joint operations’[4] some respondents think that disclosures relating capital commitments would already be covered with the disclosures for the entity as a whole. This is because the entity that is a party to a joint operation will

[4] The source of this comment is Comment Letter 27, 42 and 80.

have already accounted for the assets, liabilities, revenues and expenses arising from the joint operation in its financial statements.

24. IAS 16 *Property, Plant and Equipment*[5], IAS 38 *Intangible Assets*[6] or IAS 40 *Investment Property*[7] each have disclosure requirements in relation to commitments. The disclosures on joint arrangements aim to provide information to help users understand the involvement that a party might have with the arrangements. The parties might have agreed to respond jointly towards specific commitments arising from the activities of the arrangement. The way the parties to a joint arrangement agree to act together is a feature not captured by the disclosure requirements in IAS 16, IAS 38 and IAS 40.

25. We therefore recommend that the Board retain this disclosure requirement for joint operations.

Joint ventures

26. Additionally some respondents questioned the need to provide disclosures relating to capital commitments in the case of joint ventures.[8] They commented that such disclosures would appear to contradict that the entity only has an interest in the net outcome of the venture or that the liabilities of the joint venture are present obligations of the joint venture and not of the venturers.

27. We disagree with those concerns, because they mischaracterise the proposals. The proposed disclosure relates to commitments a venturer has **to** the joint venture. It is not a requirement to disclose a venturers share of the commitments **of** the venture.

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[5] IAS 16.74 (d) requires an entity to disclose 'the amount of contractual commitments for the acquisition of property, plant and equipment'.
[6] IAS 38.122 (e) requires an entity to disclose 'the amount of contractual commitments for the acquisition of intangible assets'.
[7] IAS 40.75 (h) requires an entity to disclose 'contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements'.
[8] The source of this comment is Comment Letter 45, 71, 80, 84 and 92.

***Capital** commitments*

28. The requirement to disclose *capital* commitments poses an additional challenge. 'Capital commitment' is not a defined term and, based on conversations held with analysts, a wide range of commitments are considered to be 'capital commitments', including commitments to acquire property, plant and equipment, to fund the acquisition of businesses, to extend loans to entities, to inject new equity to an existing investment or commitments arising from call and put options.

29. It is also possible that the qualifier 'capital' might not cover significant future commitments if those commitments are expensed when incurred rather than capitalised (eg a major planned expenditure in research activities). In this respect, commitments that are expensed when incurred should also be included.

30. We think the aim of this disclosure requirement is to provide information to users relating an entity's best estimates of future outflows of resources arising from commitments with its joint arrangements whether those commitments relate to operating, investing or financing activities.

31. We also note that IAS 24 *Related Parties Disclosures*[9] has requirements in relation to commitments that do not include the qualifier *capital*. Paragraph 21 of IAS 24 states:

> The following are examples of transactions that are disclosed if they are with a related party: […] (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).

32. We recommend that the Board remove the adjective 'capital' from this disclosure requirement.

[9] Appendix 2 of this Agenda Paper includes disclosure requirements in IAS 24 that are relevant for joint ventures and associates.

Associates

33. IAS 28 does not currently require disclosure of commitments by the investor to its associate—IAS 24 would cover some commitments, but not the wider set contemplated by IAS 31 or ED 9. We recommend that this disclosure requirement be extended to cover the relationship between an investor and its associates. IAS 28 already has requirements in relation to contingent liabilities and we think that aligning the requirements for commitments will enhance consistency (ie with contingent liability disclosures and between joint arrangements and associates).

Question 4
Does the Board agree with; (a) requiring disclosures on commitments to all types of joint arrangements?; (b) removing the qualifier 'capital' from 'capital commitments'?; (c) include this disclosure for associates?

Contingent liabilities

34. Paragraph 38 of ED 9 proposes:

> 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.

35. IAS 28 has a very similar disclosure requirement:

> 40. In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets the investor shall disclose:
>
> (a) its share of the contingent liabilities of an associate incurred jointly with other investors; and
>
> (b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

36. Similarly to the comments expressed in paragraph 23, a few respondents stated that in the case of 'joint operations', the disclosure requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* could cover

the requirements in ED 9.38 (a) and therefore make them unnecessary for this type of arrangement. The specific disclosure requirements in IAS 37 are as follows:

> IAS 37.86 - Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable: (a) an estimate of its financial effect, measured under paragraphs 36-52; (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

37. These arguments are similar to those received in relation to capital commitments and so too is our rationale for keeping these requirements. We would therefore recommend keeping this disclosure requirement in ED 9 so that arrangements that are joint operations are also included.

38. A few respondents interpreted the proposals as requesting an entity to disclose its proportionate share of the contingent liabilities **of** the joint venture, and disagreed with disclosing this proportionate share because for these respondents this appears to be incompatible with the fact that the reporting entity only has an interest in the net outcome of the joint venture. That is not the proposal.

Question 5
Does the Board agree in keeping this disclosure requirement relating to contingent liabilities for all types of joint arrangement?[10]

Disclosure requirements affecting joint operations

Summarised financial information for 'joint operations'

39. A few respondents[11] were concerned that ED 9 was not proposing to require that a joint operation present summarised financial information.[12] One user

[10] The proposal to replace IAS 37 would delete the label 'contingent liabilities'. If that proposal goes ahead we will modify the wording in the Joint Arrangements IFRS.
[11] The source of the comment is comment letters CL 17, CL 56 and CL 94.

that responded to ED 9 commented: 'We would like to see this expanded to include joint operations and joint assets as well, at least with respect to what it is on the reporting company's balance sheet'.[13]

40. The classification of 'joint operations' in accordance with the final standard on joint arrangements will include arrangements that under IAS 31 are called either 'jointly controlled operations/assets' or 'jointly controlled entities' (JCEs). We note that IAS 31 requires summarised financial information only for JCEs; IAS 31 does not require summarised financial information for arrangements that are 'jointly controlled operations/assets'.

41. Based on the proposed requirements in ED 9, we have summarised below the effects in terms of disclosure requirements relating to summarised financial information, depending on whether arrangements that are JCEs under IAS 31 are 'joint operations' or 'joint ventures' under ED 9:

[12] ED 9.39 requires: 'A venturer shall disclose information that enables users of its financial statements to evaluate its activities conducted through joint ventures. […]'
[13] The source of this comment is CL 94.

Type of arrangement in accordance with IAS 31	**Disclosure requirement in accordance with IAS 31**		**Type of arrangement in accordance with ED 9**	**Disclosure requirement in accordance with ED 9**
Jointly Controlled Operations / Assets	No requirement to disclose summarised financial information		Joint Operations	No requirement to disclose summarised financial information
Jointly Controlled Entities (JCEs)	Aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses[14]		Joint Operations	No requirement to disclose summarised financial information
			Joint Ventures	Summarised financial information for individually material joint ventures and in total for all others: current and non-current assets and liabilities, revenues and profit or loss

46. If JCEs in IAS 31 are 'joint operations' according to the new standard, on the basis of the proposed disclosure requirements in ED 9, there will be, comparatively, a loss of disclosures. However, we think that this should affect a lower number of arrangements, because we expect that a higher number of current JCEs will become 'joint ventures' in accordance with ED 9. At the same time, if disclosure requirements such as summarised financial information for 'joint operations' are required, this will be a change for arrangements that are currently 'jointly controlled operations/assets' in accordance with IAS 31 for which at present no summarised financial information is required.

47. We think that the loss of summarised financial information for those JCEs under IAS 31 that might be 'joint operations' under the new standard is

[14] Disclosure requirement in accordance with paragraph 56 of IAS 31.

appropriate. This is because the assets and liabilities arising from these arrangements are recognised in the parties' financial statements.

Question 6
Does the Board agree with not requiring summarised financial information for those arrangements that are joint operations under the new standard?

Summarised financial information for joint ventures and associates

Summarised financial information for each individually material joint venture

48. Paragraph 39 (b) of ED 9 states the following:

> ED 9.39 […] a venturer shall disclose the following information: […] (b) for each individually material joint venture, and in total for all other joint ventures summarised financial information, including, but not necessary limited to, the venturer's interest in the amount of each of:
>
> (i) current assets,
> (ii) non-current assets,
> (iii) current liabilities,
> (iv) non-current liabilities,
> (v) revenues, and
> (vi) profit or loss

Individually material joint venture

49. Some respondents stated that the disclosure requirements included in paragraph 39 (b) for *each individually material* joint venture, and *in total for all other joint ventures*, are excessive and should be required *only for total joint ventures*. Some of these respondents stated that there is no such requirement in IAS 28 and that it might be useful to provide guidance on how to assess whether a joint venture is an 'individually material joint venture' and thereby warrants separate disclosure. Respondents supporting this view

were mainly preparers, from a wide range of industries, primarily based in Europe.[15]

Joint venture to support one contract

50. Some respondents stated that, in those cases where joint ventures are created to support only one contract, the disclosure requirements of paragraph 39 (b) would lead to the publication of commercially-sensitive or confidential information.[16]

Additional disclosures should be required

51. Some respondents stated that because of the elimination of proportionate consolidation, they would suggest even more disclosures in the notes than proposed in ED 9.[17] One of these respondents stated that 'the information provided should not be limited to total current and non-current assets and liabilities, […], but should present the whole impact of joint ventures using a summarised balance sheet and income statement presentation, with particular emphasis on the main operating performance indicators'.[18] Some of these respondents stated, however, that disclosure of this nature should be encouraged but not be mandatory.

52. A user and a professional body[19] stated that the disclosure requirements included in paragraph 39 (b) for joint ventures should additionally include information on dividends paid, cash flow and tax allocation. The user stated that

> 'it would be particularly helpful for companies to disclose short-term and long-term debt separately from other current and non-current liabilities and on the asset side to have cash disclosed separately from other assets'.

[15] The source of this comment is Comment Letters CL 4, CL 9, CL 38, CL 54, CL 57, CL 61, CL 76, CL 78, CL 82, CL 84, CL 97 and CL 113.
[16] This comment corresponds to Comment Letters 12, 36, 82, 83 and 112.
[17] The source of this comment is Comment Letters CL 15, CL 53, CL 67, CL 76, CL 94, CL 105 and CL 112.
[18] The source of this comment is Comment Letter 53.
[19] This comment corresponds to Comment Letters 74 and 94.

53. Another user[20] stated:

> 'financial analysts are very sensitive to related party transactions between the reporting and the joint arrangements […] and therefore looking for more details about assets (loans, current assets…), liabilities and operating performance items that are tied to joint arrangements'.

54. One the one hand some respondents want more detailed disclosures than those proposed in ED 9. On the other hand, some respondents think that summarised financial information should not be required on an individual basis.

Aggregation

55. We think that disclosure of individually material joint ventures could be a potential issue for entities that establish joint ventures to carry out long-term infrastructure and industrial projects under project finance (ie under a financial structure where loans are non-recourse secured by the project assets and paid entirely from project cash flow rather than from the general assets or creditworthiness of the project sponsors). Additionally this type of projects might be carried out with a public authority that might require some degree of confidentially relating to the information affecting their agreements. Construction, concessions and energy are industries that are most likely to be affected by these requirements.

56. We think that in the case of joint ventures, the information required would provide a higher degree of detail than the information required by IFRS 8 *Operating Segments*. This is because the requirements could potentially apply to individual contracts or projects when these are structured through joint ventures, whereas the information affecting segments required in IFRS 8 might include a number of entities that share specific features but which are not necessarily individual businesses. For such situations, we think the risk of disclosing commercially-sensitive or confidential information is higher in the proposals in ED 9 than in IFRS 8.

[20] The source of this comment is Comment Letter 98.

57. We also note that this issue was dealt in IAS 37 as follows:

> IAS 37.92 **-** In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

58. However, we note that a 'competitive harm exception' was also discussed in IFRS 8 and even though the Board considered adopting special provisions to reduce the potential for competitive harm from certain segment information the Board decided against it 'because it provides a means for broad non-compliance with the IFRS'.[21]

59. We think that rather than allowing for a competitive harm exception we recommend to require summarised financial information for joint ventures to be provided either individually or in groups. We do so on the basis that this is the level of aggregation required in IAS 28 for associates that are not accounting for using the equity method:

> IAS 28.37 (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.

60. However, we note that the requirement in IAS 28.37 (i) included above is not consistent with the requirement of summarised financial information for associates accounted for under the equity method:

> IAS 28.37 (b) **-** summarised financial information of associates, including the **aggregated amounts** of assets, liabilities, revenues and profit or loss; […].

61. We propose to align the aggregation in the disclosure requirements of summarised financial information for joint ventures and associates, independently from the measurement method both types of investment are accounted for, to be 'either individually or in groups'.

[21] Corresponds to paragraph BC 44 of IFRS 8.

Question 7
Does the Board agree with the recommendation in paragraph 61 of this Agenda Paper?

Granularity of the disclosures

62. We agree with those respondents that stated that other additional disclosures could potentially provide useful information. Our recommendations in the next paragraphs have been drawn from the analysis of the need for any additional disclosure requirements for each of the financial statements, based on discussions with analysts and user groups. We note, however, that a group of preparers questioned the usefulness of the additional disclosures we are proposing below.

Statement of Financial Position

63. We have contacted some analysts who informed us that information relating to 'cash' and 'financial liabilities, excluding trade and other payables and provisions' would be very useful disclosures to include. This is because users could use these lines items to construct an approximate figure of 'net debt', which is a term that is not currently defined under IFRS.

64. We propose to add disclosure of *cash* and *financial liabilities, excluding trade and other payables and provisions* to the disclosure requirements proposed in ED 9 for the statement of financial position as follows:

(i) <u>cash</u>;
(ii) current assets;
(iii) non-current assets;
(iv) <u>financial liabilities, excluding trade and other payables and provisions</u>;
(v) current liabilities;
(vi) non-current liabilities.

65. We do not think that the additional disclosure requirements will be difficult to obtain, nor will they represent an excessive cost to preparers. However, they will benefit users and that benefit appears to outweigh any related costs.

66. Please note that in relation to the disclosures of the statement of financial position proposed in ED 9 respondents in the banking and real estate industries challenged them because their financial statements are presented according to liquidity or because their operating cycle is longer than one year.[22] We propose to clarify in the application guidance that if an entity presents its statement of financial position based on liquidity or for those cases where the entity's operating cycle is longer than a year, the disclosure requirements above should be adapted to present them following the entity's liquidity or operating cycle criteria.

Statement of Comprehensive Income

67. As mentioned above, paragraph 39 of ED 9 requires disclosure of 'revenues' and 'profit or loss'. One of the analysts contacted informed us that similar information to that required in IFRS 8 would be more useful than requiring just 'revenues' and 'profit or loss'.

68. According to paragraph 23 of IFRS 8, an 'entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, […]:

(a) revenues from external customers;
(b) revenues from transactions with other operating segments of the same entity;
(c) interest revenue;
(d) interest expense;
(e) depreciation and amortisation;
(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);
(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
(h) income tax expense or income; and
(i) material non-cash items other than depreciation and amortisation.

[22] The source of this comment is comment letters CL 15, CL 25, CL 38, CL 64 and CL 88.

69. We note that many users require information about depreciation, amortisation, interest and tax to help them value a business. The users who were contacted highlighted the need for information relating to cash indicators from joint ventures.

70. We think that parties in some joint ventures will have difficulties in disclosing cash operating information from their joint ventures, because, depending on the specific local requirements, a cash flow statement might not have been prepared for the joint venture. Considering this fact, but also considering the need for users to have better information to value and assess the performance of the businesses carried out through joint ventures, we think disclosure of the following items of the statement of comprehensive income would be useful information to provide. This should be relatively simple to obtain by the parties to a joint venture:

    (i) depreciation and amortisation,
    (ii) interest revenue;
    (iii) interest expense;
    (iv) income tax expense or income.

71. These disclosure requirements together with the ones proposed in the exposure draft (ie revenues and profit or loss) will result in the following requirements relating to the statement of comprehensive income for joint ventures:

    (i) revenues;
    (ii) <u>depreciation and amortisation;</u>
    (iii) <u>interest revenue;</u>
    (iv) <u>interest expense;</u>
    (v) <u>income tax expense or income; and</u>
    (vi) profit or loss.

Statement of Cash Flows

72. As mentioned above, disclosures relating to cash flow measures (ie information about cash provided by the parties to the joint venture and cash received from the joint venture by the parties) provide very useful information to users. However, given the potential difficulties in collecting this information we think that requiring the disclosure of the four additional line items as recommended in paragraph 70 of this Agenda Paper (ie depreciation

and amortisation, interest revenue and interest expense, and income tax expense or income) is a more cost-beneficial way to provide users with information helpful in assessing cash flows.

73. Our discussion with users also highlighted the benefits from having a requirement that a venturer disclose the amount of dividends received from joint ventures.

Question 8
Does the Board agree with requiring the following additional summarised financial information for joint ventures? (i) cash; (ii) current assets; (iii) non-current assets; (iv) financial liabilities, excluding trade and other payables and provisions; (v) current liabilities; (vi) non-current liabilities; (vii) revenues; (viii) depreciation and amortisation; (ix) interest revenue; (x) interest expense; (xi) income tax expense or income; (xii) profit or loss; and (xiii) dividends received.

Associates

74. ED 9 proposed to amend the requirement of summarised financial information in IAS 28 as follows:

(b) summarised financial information of associates, including the ~~aggregated amounts of~~ investor'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 associates~~;~~.

75. The proposal above to require disclosure of current and non-current assets and liabilities of associates rather than total assets and liabilities was supported by a majority of the respondents.

76. Please note that the consequential amendments to IAS 28 proposed in ED 9 retained the requirement to disclose the information on an aggregate basis. We have proposed in paragraph 61 of this Agenda Paper to align the

aggregation of disclosures of summarised financial information for joint ventures and associates to be either individually or in groups. This modification in the requirement will not represent an additional aspect of the requirements since preparers will still have an option to present the summarised financial information in total for all associates.

77. Some respondents expressed doubts about the benefits and usefulness of the information to investors, because they would have no possibility to block decisions concerning the associate's assets and liabilities allocation.[23] As in the case of joint ventures, respondents in the banking and real estate industries also challenged the requirement because their financial statements are presented according to liquidity or because their operating cycle is longer than one year.

78. The users that responded to ED 9 stated that it would be particularly helpful for companies to disclose short-term and long-term debt separately from other current and non-current liabilities and on the asset side to have cash disclosed separately from other assets.

79. We think that summarised financial information for associates warrant different granularity than the disclosures of joint ventures because the involvement and the level of commitments assumed by an investor is generally lower than the involvement and level of commitments assumed by a party to a joint arrangement. Consequently we propose to carry forward the summarised financial information proposed in ED 9 for associates in the final standard.

Question 9
Does the Board agree to carry forward the summarised financial information for associates into the final standard as proposed by ED 9?

[23] Comment letters expressing concerns relating this disclosure requirement are CL 4, CL 8, CL 13, CL 16, CL 18, CL 20, CL 26, CL 27, CL 30, CL 42, CL 47, CL 48, CL 52, CL53, CL54, CL 57, CL66, CL77, CL 79 and CL80.

Disclosure requirements for joint ventures held by venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds

80. Under ED 9, ‘joint ventures’ held by venture capital organisations or mutual funds, unit trusts and similar entities including investment-linked insurance funds would be required to fulfil the disclosure requirements in paragraph 37 and paragraphs 39(a) and (d) of the exposure draft. These paragraphs state the following:

> ED 9.37. An entity shall disclose the aggregate amount of the following commitments separately form other commitments: (a) any capital commitments it has relating to its interests in joint arrangements; and (b) its share of capital commitments incurred jointly with other parties.
>
> ED 9.39 […] a venturer shall disclose the following information: (a) a list and description of interests in significant joint ventures and the proportion of ownership interest held. […] (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.

81. When the Board deliberated the need of disclosures for ‘joint ventures’ held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds the Board concluded that disclosure of summarised financial information should not be required because it represented an unnecessary burden for these entities. IAS 31 does not require disclosure of summarised financial information for joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds. As a result, ED 9 proposed to delete this disclosure requirement for these type of entities as a consequential amendment to IAS 28:

> IAS 28.37 - (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.

82. Only three respondents commented on this consequential amendment. One[24] of these respondents stated that it was not clear why the exposure draft proposed deletion of this disclosure requirement in IAS 28. The two[25] other respondents highlighted that this disclosure requirement in IAS 28 referred above (paragraph 37(i)) should have been included as requirements for joint ventures.

83. We have been informed that joint ventures are not very common investments among mutual funds. Joint ventures might be more frequent among venture capital organisations and private equity though. Associates, however, are a much more frequent investment for these types of entities.

84. We think that the disclosure requirements for this type of entities holding associates should not be deleted. We think that information about the activities of the associate is relevant whatever basis is used for measuring the net investment. We propose that associates held by entities such as venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds to provide the same summarised financial information as the other associates accounted for under the equity method.

85. Even though the need for these requirements in the case of joint ventures might be more limited, we think that we should align the disclosure requirements for the same reason as noted in the preceding paragraph.

Question 10
Does the Board agree with the recommendations proposed in paragraphs 84 and 85 of this Agenda Paper?

Elimination of paragraph 37 (h) of IAS 28 proposed by ED 9:

86. ED 9 proposed to delete this disclosure requirement as a consequential amendment to IAS 28:

[24] The source of this comment is CL 58.
[25] The source of this comment is comment letters CL 29 and CL 34.

> IAS 28.37 - (h) the fact that an associate is not accounted for using the equity method; […].

87. The comments included in paragraph 82 of this Agenda Paper were also done by the same respondents in relation to the deletion of this paragraph of IAS 28.

88. In relation to the disclosure requirement in IAS 28.37 (h) we think that such disclosure requirement would provide clearer and more complete information to users about the joint ventures and associates that are not being accounted for under the equity method either because they are held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds or because they are joint ventures or associates held for sale. We propose to retain this requirement in the final disclosure standard. Please note that we are not recommending that the final standard includes any disclosure requirements for the case of joint ventures or associates held for sale since the fulfilment of these disclosures should be done by applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value of investments in joint ventures for which there are published price quotations

89. IAS 28 requires an entity to disclose 'the fair value of investments in associates for which there are published price quotations'. Only one respondent[26] commented that such disclosure would be also useful for joint ventures.

90. We think that this requirement could be also applicable to joint ventures, but we think it would not be as common as it could be in the case of associates. However, we think that it is a disclosure requirement that it can be aligned with joint ventures.

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[26] The source of this comment is comment letter CL 100.

Question 11
Does the Board agree with the recommendations included in paragraphs 88 and 90 above?

Appendix 1 – Questions addressed by ED 9 relating to disclosures in IAS 28 and consequential amendments proposed

1. The exposure draft asked the following questions for public comment:

Question 5 of the Invitation to Comment. Do you agree with the proposal to restore to IAS 27 and IAS 28 the requirements to disclose a list and description of significant subsidiaries and associates? If not, why?

Question 6 of the Invitation to Comment. Do you agree that it is more useful to users if an entity discloses current and non-current assets and liabilities of associates than it is if the entity discloses total assets and liabilities? If not, why?

2. The exposure draft proposed to delete the following two disclosure requirements as consequential amendments to IAS 28:

37 (h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13;

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.

Appendix 2 – IAS 24 *Related Party Disclosures*

IAS 24. 18. If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

(a) the amount of the transactions;
(b) the amount of outstanding balances, including commitments, and:
(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
(ii) details of any guarantees given or received;
(c) provisions for doubtful debts related to the amount of outstanding balances; and
(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

19. The disclosures required by paragraph 18 shall be made separately for each of the following categories: […]

(d) associates;
(e) joint ventures in which the entity is a venturer; […]

20. The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 is an extension of the disclosure requirement in IAS 1 *Presentation of Financial Statements* for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

21. The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);
(b) purchases or sales of property and other assets;
(c) rendering or receiving of services;
(d) leases;
(e) transfers of research and development;
(f) transfers under licence agreements;
(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
(h) provision of guarantees or collateral;
(i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised); and
(i) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.

22. Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of IAS 19).

23. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

24. Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.