ED9 – IAS 31

Main principles

Scope

- **This IFRS applies to all entities having interests in “joint arrangement” except those held by the following entities:**
  - venture capital organisations,
  - mutual funds,
  - unit trust and similar entities (e.g.: investment-linked insurance funds).

  If those interests are accounted for at Fair Value through P&L in accordance with IAS 39.

Types of joint arrangement

- **ED 9 identifies 3 different types of joint arrangements:**
  - Joint operations,
  - Joint assets and
  - Joint ventures.
- **The qualification of one of those types of joint arrangement depends on the rights and obligations arising from the contractual arrangement:**
  - To be part of a joint operation or of a joint asset means having contractual rights to individual assets or contractual obligations for expenses or financing
  - To be part of a joint venture means having a right to a share of the outcome generated by an economic activity
- **The notion of "shared decision making" must be established by contractual arrangement that can take various forms. It usually has a written form and deals with matters such as:**
  - The activity, duration and reporting obligations of the joint arrangement,
  - The appointment of a governing body and the voting rights of the parties,
  - The capital contribution by the parties,
  - The sharing of the output, income, expenses…

Financial statements and accounting

- **In a joint operation, a party must recognise:**
  - the assets it controls and the liabilities it incurs,
  - the expenses it incurs and
  - its share of the revenue and expenses from the sale of goods or services by the joint arrangement.
- **A party that has interests in a joint asset, must recognise:**
  - the share of the joint asset, classified according to its nature,
  - any liabilities it incurs,
  - its share of any liabilities incurred jointly with the other parties,
  - any revenue from the sale or use of its share of the output of the joint asset and
  - any expenses it incurs in respect of its interest in the joint arrangement.
- **A venturer shall recognise its interest in a joint venture using the equity method except when:**
  - the interest is classified as held for sale (IFRS 5 applies),
  - The exception included in IAS 27 applies, or
  - all of the following applies:
    - the venturer is a subsidiary and its owners have been informed and do not object to, the venturer not applying the equity method,
    - the venturer’s debt or equity instruments are not traded in a public market,
    - the venturer does not file its financial statements with any regulatory organisation, for the purpose of issuing any class of instruments in a public market and
    - a parent of the venturer produces consolidated financial statements available for public use that comply with IFRS.

Lost of joint control

- **From the date it ceases to have joint control over a joint venture, the entity shall discontinue the use of the equity method except when it retains significant influence.**

- **The remaining interests shall be accounted according to IAS 39, except when:**
  - the joint venture becomes a subsidiary, the entity shall account its interest according to IAS 27 and IFRS 3
  - the joint venture becomes an associate, the entity shall account its interest according to IAS 28, which means using the equity method.

Main disclosure

- **A party to a joint arrangement must disclose the following:**
  - Description of the nature and extent of the operations conducted through each of the 3 types of joint arrangement,
  - The aggregate amount of the following commitments:
    - Any capital and liabilities related to interests in joint arrangement,
    - Its share of capital commitment and liabilities incurred jointly with other parties
  - A list and description of interests in significant joint ventures and the proportion of ownership interest held,
  - For each joint venture and in total for all other JV summarised financial information, including the venturer’s interest in the amount of each of: current assets and liabilities, non-current assets and liabilities, revenues and profit or loss
  - The end of the reporting period of a JV, when its financial statements are used to apply the equity method and when the period differs from the one of the venturer. A reason for using different date or period must be given.
  - The nature of any significant restrictions on the ability of the JV to transfer funds to the venturer (dividends, loans repayments…)
  - The unrecognised share of losses of a JV.

Main changes in comparison with IAS 31

Wording

- The title of IAS 31 becomes “joint arrangements” instead of “interest in joint ventures”
- The word “venturer” is mostly replaced by the words “parties” and “entities”
- “jointly controlled operations”, “jointly controlled assets” and “jointly controlled entities” are now described as “joint operations”, “joint assets” and “joint venture”.

Definition – accounting principle

- **The definition of a joint arrangement requires shared decision-making by all of the parties to the arrangement rather than joint control.**
- **A party to a joint arrangement should recognise first its contractual rights and obligations arising from the arrangement. Therefore the form of the arrangement is no longer the most significant factor to determine the accounting principle**
- **It is not appropriate to recognise a net interest in a joint arrangement (e.g.: equity method) when the parties have contractual rights and obligations relating to individual assets and liabilities of the joint arrangement**
- **The proportionate consolidation method is no longer the accounting reference for jointly controlled entities: the equity method prevails**
- **Main reasons for eliminating the proportionate consolidation method:**
  - When possible, the board seeks to exclude accounting options as it may impair comparability: similar transactions could be accounted in different ways
  - The proportionate consolidation method is inconsistent with the framework (§ 49): this method leads a party to recognise in its financial statements assets that it does not control and liabilities that are not present obligations
  - This proposal achieve convergence with US GAAP
  - The board believes that the new disclosure requirements provide better financial information about the assets and liabilities of a joint venture than by using the proportionate consolidation.

Loss of joint control

- If an investor loses joint control but retains significant influence, the equity method should apply before and after the loss of joint control.

- According to IAS 31, in that case the equity method should no longer be used. The investment should be accounted according to IAS 39, except when the investor retains significant influence, then IAS 28 should apply.

Disclosure

- **The scope of information to be disclosed has been enlarged by:**
  - The nature and extent of an entity’s operations conducted through joint arrangements
  - Summarised financial information for all individually material joint ventures (those disclosure requirements are aligned with those required by IAS 28)