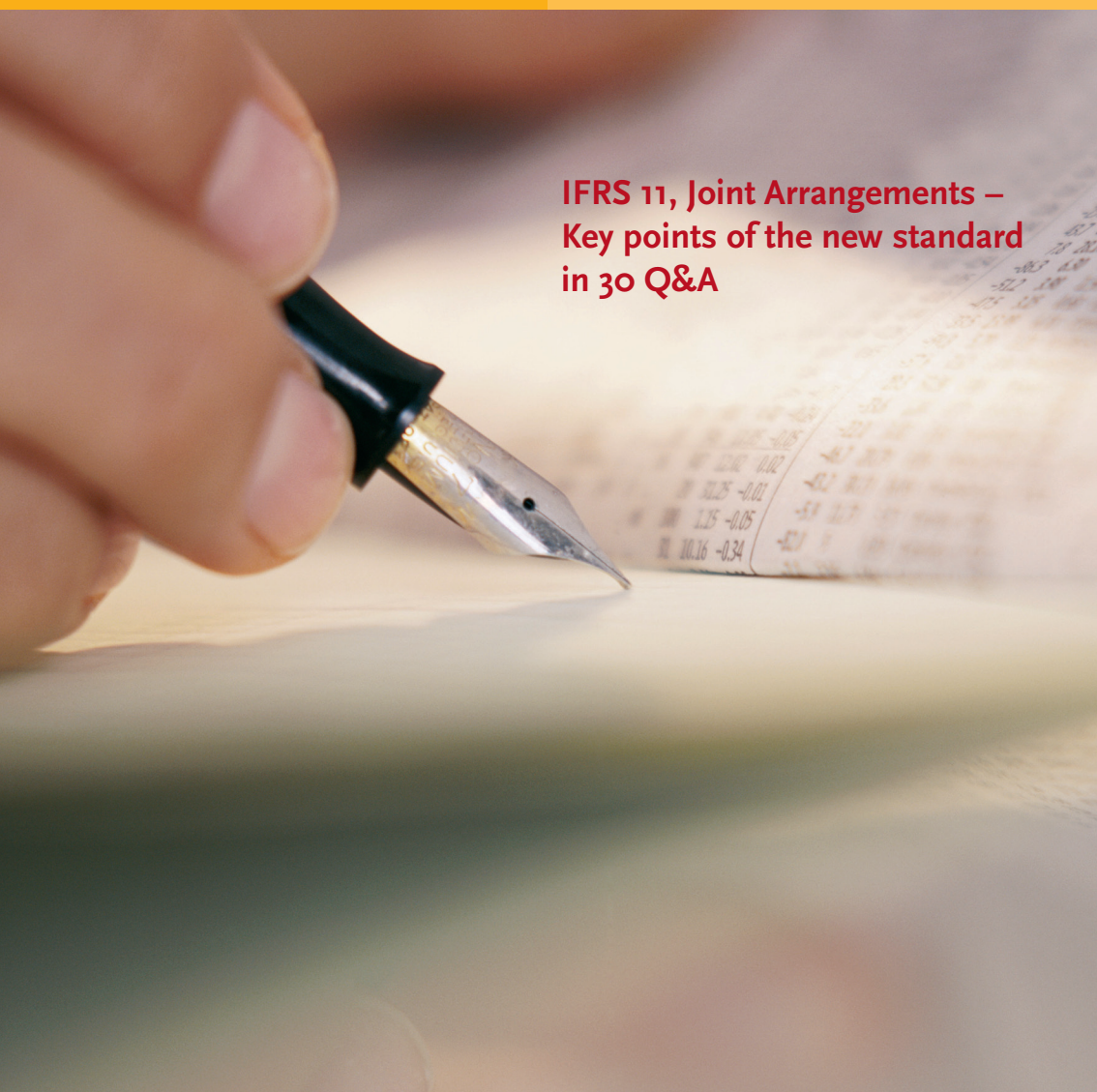


MAZARS INSIGHT



IFRS 11, Joint Arrangements –
Key points of the new standard
in 30 Q&A

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On 12 May 2011, the IASB published IFRS 11, *Joint Arrangements*, which cancels and replaces IAS 31, *Interests in Joint Ventures*. Nearly four years had therefore passed between the publication of the exposure draft ED 9 in September 2007 and the publication of the final standard. Four years during which the stakeholders tried and failed to have their voice heard by the IASB. One of the main criticisms of ED 9, the elimination of the proportionate consolidation method when accounting for joint ventures - which had been the preferred method in IAS 31 - was ultimately rejected by the international standard setter.

The main novelty introduced by IFRS 11 consists in the distinction between joint operations and joint ventures. This distinction is based on an analysis of the rights and obligations of the parties that exercise joint control over the joint arrangement. The accounting treatment presented in IFRS 11 differs, depending on whether the joint arrangement is a joint operation or a joint venture, with no optional accounting treatment for a given type of joint arrangement.

From the point of view of the IASB, IFRS 11 thus aims to resolve the two main weaknesses of IAS 31:

- the old standard on joint ventures prescribed the accounting treatment of an arrangement evidencing joint control solely on the basis of whether or not it was structured through a distinct legal entity;
- IAS 31 offered a choice of accounting methods for the recognition of jointly controlled entities (i.e. proportionate consolidation or equity method).

The IASB wanted to adopt a new standard which would establish the same accounting treatment for all joint arrangements which were identical in substance.

In parallel to the publication of IFRS 11, the IASB has also adopted the following standards:

- IFRS 10, *Consolidated Financial Statements*;
- IFRS 12, *Disclosure of Interests in Other Entities*;
- IAS 27, *Separate Financial Statements* (revised in 2011), amended to take account of the adoption of IFRS 10 in order to maintain only those principles currently applicable to separate financial statements (recognition of interests in subsidiaries, joint ventures and associates);
- IAS 28, *Investments in Associates and Joint Ventures* (revised in 2011), which was amended to take account of the publication of IFRS 10 and IFRS 11.

1. WHAT IS THE EFFECTIVE DATE OF IFRS 11?

IFRS 11 is effective for annual periods beginning on or after 1 January 2013. Early application is permitted, on condition that all the other new texts on consolidation published by the IASB on 12 May 2011 are applied at the same date.

European entities will have to wait for the publication of the regulation endorsing IFRS 11 in the Official Journal of the European Union before applying this new standard.

2. TO WHAT EXTENT DOES IFRS 11 CONVERGE WITH US GAAP?

The project on joint ventures was listed in the Memorandum of Understanding signed by the IASB and the FASB in 2006 and embodying their work to converge the international and US accounting standards. However, IFRS 11 has never been the subject of joint deliberations between the IASB and the FASB. In this sense, this was never a joint project in the same way as the project on revenue recognition, for example.

So, even if IFRS 11 is now closer to US GAAP in terms of its accounting treatment of joint ventures (joint arrangements structured through separate vehicles), convergence is not achieved a priori with IFRS 11 given the exceptions in US accounting texts for some particular sectors of activity. In particular, an exception is authorised in the United States for proportionate consolidation in the oil and the construction industries. These are two sectors which traditionally make extensive use of agreements for joint control. However, in practice, many of the joint arrangements in these industries should meet the definition of joint operations in IFRS 11, because of the legal form usually chosen for these arrangements, and they should therefore be accounted for by a method close to proportionate consolidation (see question 20).

Some joint arrangements which are structured through separate vehicles, analysed by IFRS 11 as joint operations, will be accounted for by a method close to proportionate integration whereas under US GAAP, the equity method should be used (in the absence of any exemption specific to certain sectors).

The other differences between the two accounting frameworks concern:

- the definition of a joint arrangement, which is broader in IFRS 11 than in US GAAP, which limit the term to "corporate joint ventures" (i.e. jointly controlled entities which are incorporated);

- the definition of joint control: this term is only used in the US accounting literature in the guidance for the real estate industry. This definition is potentially wider than the definition of joint control in IFRS 11.

3. WHAT ARE THE MAIN PRINCIPLES OF IAS 31 ON THE ACCOUNTING TREATMENT OF INTERESTS IN JOINT VENTURES?

IAS 31 identifies three broad types of 'joint ventures'*:

- “jointly controlled operations”: the example given in IAS 31 to illustrate this type of joint venture is that of two or more venturers combining their activities, resources and expertise to jointly manufacture, market and distribute a particular product, for instance an aircraft. Each of the venturers carries out a part of the manufacturing process. Each bears its own costs and takes a share of the revenue from the sale of the aircraft, this share being determined in accordance with the contractual arrangement;
- “jointly controlled assets”: IAS 31 illustrates this concept with the example of two oil production companies that could jointly control and use a pipeline;
- “jointly controlled entity”: a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

All the joint ventures identified by IAS 31 share the following characteristics:

- two or more venturers are bound by a contractual arrangement; and
- the contractual arrangement establishes joint control.

Joint control is defined in IAS 31 as the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

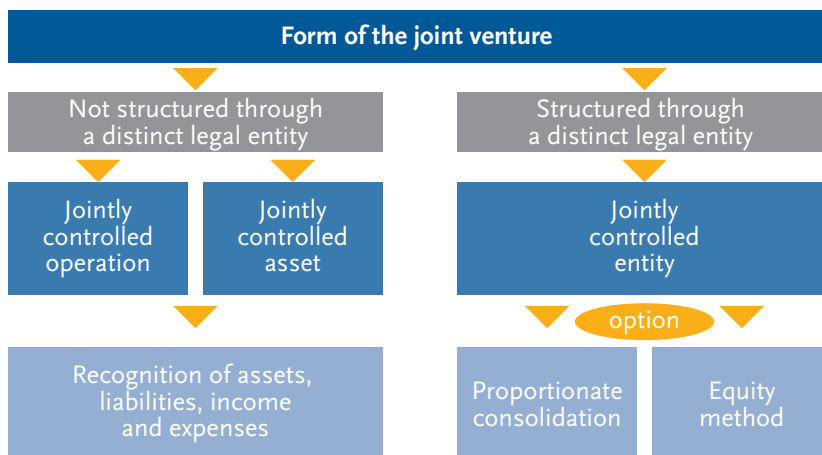
In practice, the accounting treatment of joint ventures under IAS 31 depends on whether or not a joint venture was structured through a separate legal entity:

- for the activities and assets jointly controlled, the venturer shall recognise the assets, liabilities, revenues and expenses relating to its interest in the jointly controlled activity or jointly controlled asset;

* Note that the term 'joint venture' in IAS 31 was not used in the same way as it is now applied in IFRS 11.

- for jointly controlled entities, the venturer shall recognise its interest either by using the proportionate consolidation method or by using the equity method (a choice of accounting method, to be applied consistently to all the jointly controlled entities).

The diagram* below illustrates the accounting principles for joint ventures as set out in IAS 31.



4. WHAT ARE THE MAIN STEPS IN IMPLEMENTING IFRS 11?

The main steps in implementing IFRS 11 are as follows:

1. Analyse whether the investor has joint control over the arrangement
2. Identify the type of arrangement: joint operation or joint venture?
3. Translate the operation into the consolidated financial statements in accordance with the principles set out in IFRS 11 and the nature of the joint arrangement.

Step 1: does the investor have joint control over the arrangement?

The existence of joint control is a precondition for the application of IFRS 11.

Nevertheless, it should be noted that the parties may be involved in joint arrangements without themselves exercising joint control.

* Diagram modified from that provided by the IASB in the document «Project Summary and Feedback Statement» on IFRS 11 published in May 2011.

If joint control cannot be demonstrated, the interest in the arrangement shall be accounted for in compliance with IFRS 10 (if an investor has control over the entity), IAS 28R (if an investor exercises significant influence on an entity) or IAS 39/IFRS 9 (unconsolidated interests).

Step 2: is the joint arrangement a joint venture or a joint operation?

Once joint control over a joint arrangement has been established, the joint arrangement must be defined in the terms of IFRS 11. According to the standard, a joint arrangement is either a joint operation or a joint venture. The classification of a joint arrangement depends on the rights and obligations of the parties (see question 9).

Step 3: what are the accounting consequences of the classification of the joint arrangement on the consolidated financial statements?

IFRS 11 establishes the accounting principles to apply in the consolidated financial statements* to account for an investment in a joint operation or a joint venture.

Unlike IAS 31, IFRS 11 leaves the investors no options. Therefore:

- a joint operation is recognised in the joint operator's consolidated accounts by presenting the assets, liabilities, revenues and expenses relating to its interest in the joint operation (recognition line by line). In practice, this accounting method is close to proportionate consolidation (see question 20);
- a joint venture is accounted for using the equity method in the joint venturer's consolidated financial statements. IFRS 11 thus refers to IAS 28 as revised in May 2011.

5. HOW SHOULD WE IDENTIFY THE EXISTENCE OF A JOINT ARRANGEMENT?

IFRS 11 defines a joint arrangement as an arrangement of which two or more parties have joint control.

A joint arrangement has the two following characteristics:

- the parties are bound by a contractual arrangement;
- the contractual arrangement gives two or more of those parties joint control of the arrangement.

* IFRS 11 also specifies the accounting treatment of joint arrangements in the separate financial statements of a joint operator or a joint venturer. This subject will not be addressed in details in this publication.

These characteristics do not therefore differ from those set out in IAS 31 (see question 3). IFRS 11 does however provide some clarifications to aid in the identification of the existence of a joint arrangement.

Besides, IFRS 11 stresses that judgment needs to be exercised when determining if two or more parties have joint control of an arrangement.

While conducting this analysis, all relevant facts and circumstances must be taken into account so that the substance of the arrangement can be properly understood. In particular, the contractual provisions should be examined in order to assess their impact on the existence of joint control:

- what is the purpose of the arrangement?
- what is its duration?
- how has the governance of the arrangement been organised?
 - which bodies are competent to take decisions on the relevant activities of the arrangement?
 - what are the decision-making processes and the rules for a majority?
 - what provision is made in the contractual arrangements to resolve any deadlock? For example, can one of the parties exercise a purchase option to acquire the shares held by the other parties in the event of disagreement (where recourse to arbitrations is not mandatory)?

Furthermore, assessment of joint control is performed on a continuous basis: each time that there are significant changes to facts or circumstances that could put the existence of joint control in question, the situation should be reassessed.

IFRS 11 should have only limited impacts on the scope of jointly controlled entities.

6. DOES THE DEFINITION OF JOINT CONTROL IN IFRS 11 REST ON THE NEW DEFINITION OF CONTROL IN IFRS 10?

Yes.

Thus, even if this definition does not fundamentally differ from the definition of joint control in IAS 31, clarifications have been made, in conjunction with IFRS 10, concerning:

1. the activities to which unanimous consent must apply: these must be the “relevant activities” of the joint arrangement, via the “substantive rights” held by the investors; and
2. the concept of “collective control”.

The concepts of “relevant activities” and “substantive rights”

The concept of relevant activities is defined as follows in IFRS 10: activities of the investee that significantly affect the investee's returns.

A very wide range of activities, both operational and financial, can have a substantial impact on returns. These activities are not necessarily the same from one entity to another.

The existence of “substantive rights”, a concept introduced in IFRS 10, is also a prerequisite of any joint control. Only substantive rights confer control (exclusive or joint control, as appropriate).

Thus, the existence of a blocking minority applying in limited circumstances (which corresponds to simple “protective rights” rather than “substantive rights”) does not give joint control over an arrangement.

In practice, it may be difficult to make a distinction between purely protective rights (i.e. rights solely intended to protect their beneficiaries in specific circumstances) and substantive rights (i.e. rights which can be exercised when decisions must be taken on the relevant activities).

The concept of “collective control”

IFRS 11 sets out that a precondition for joint control of an arrangement is the existence of collective control as defined by IFRS 10.

Under IFRS 10, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In practice, an investor has control over an entity if all the following conditions are fulfilled:

- *the investor has power over the entity;*
- *the investor has exposure, or rights, to variable returns from its involvement with the entity; and*
- *the investor has the ability to use its power over the entity to affect the amount of the returns.*

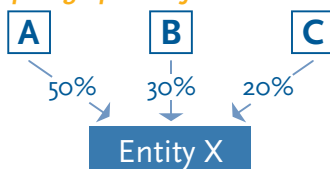
Thus, once the relevant activities are identified, it is necessary to consider whether two or more parties exercise control over the arrangement collectively (by virtue of holding substantive rights granting them the power to do so).

If a single party controls the arrangement unilaterally (i.e. without having to obtain the consent of one or more other stakeholders in the arrangement), then joint control cannot be said to exist.

Furthermore, when the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities, and this percentage can be achieved by more than one combination of the parties agreeing together, joint control cannot be said to exist (the control is merely collective), unless the contractual arrangement between the parties stipulates which parties must take decisions unanimously (decisions affecting relevant activities).

Paragraphs B5 et seq. of IFRS 11 present a number of practical examples illustrating the application of the new definition of joint control.

Example 1 presented in paragraph B8 of the standard:

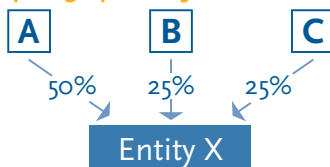


Context: the contractual agreements state that at least 75% of the voting rights are required to make decisions about the relevant activities.

Conclusion:

- no one can take decisions alone, so no one can control the entity alone;
- to take a decision, A and B must agree, since no decisions can be taken without the agreement of A and B (single combination).
- A and B thus have joint control;
- C takes part in the joint arrangement, but does not have joint control.

Example 2 presented in paragraph B8 of the standard:

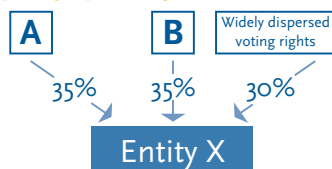


Context: the contractual agreements state that at least 75% of the voting rights are required to make decisions about the relevant activities.

Conclusion:

- no one can take decisions alone, so no one can control the entity alone (although A can block any decision)
- A, B and C control the entity collectively but no joint control exists, because there is more than one combination of parties which could take decisions together:
 - A and B or A and C can take decisions;
 - although A is involved in all the decisions, it does not have joint control.

Example 3 presented in paragraph B8 of the standard:



Context: the contractual agreements state that at least 50% of the voting rights are required to make decisions about the relevant activities.

Conclusion:

- no one can take decisions alone, so no one can control the entity alone;
- joint control does not exist, because there are multiple combinations of parties which can take decisions;
- joint control would only exist if the contractual agreements stipulated that decisions required the approval of both A and B.

7. CAN JOINT CONTROL BE IMPLICIT?

Yes.

IFRS 11 gives the example of an arrangement between two parties in which each has 50% of the voting rights and the contractual arrangement between them specifies that at least 51% of the voting rights are required to make decisions about the relevant activities. In this case, even though the arrangement does not specify that decisions must be taken unanimously, joint control is demonstrated because decisions cannot be made unless both parties agree.

8. ARE THERE SEVERAL TYPES OF JOINT ARRANGEMENTS?

Yes.

IFRS 11 identifies two types of joint arrangements:

- joint operations: the parties that have joint control of the arrangement are known as the “joint operators”;
- joint ventures: the parties that have joint control of the arrangement are known as the “joint venturers”.

A joint operation is defined by the standard as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is defined by the standard as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

9. WHAT BASIC PRINCIPLES UNDERLIE THE DISTINCTION BETWEEN JOINT OPERATIONS AND JOINT VENTURES?

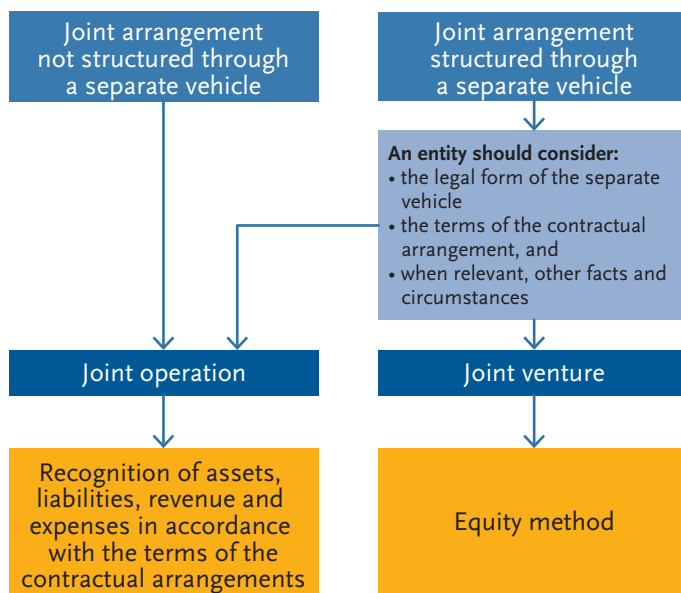
The distinction between a joint operation and a joint venture is based on an analysis of the rights and obligations of the parties to a joint arrangement:

- the legal form of the arrangement is not predominant. Therefore, a separate vehicle* may be analysed as a joint operation or as a joint venture (see question 12);
- the contractual terms and the purpose of the arrangement must be considered;
- the analysis that is being conducted must take account of all the relevant facts and circumstances.

The diagram** below illustrates those comments.

* A separate vehicle is defined by IFRS 11 as a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

** Diagram modified from that provided in paragraph B21 of IFRS 11 as issued by the IASB.



10. IS THE MERE DEMONSTRATION OF RIGHTS TO THE ASSETS OF THE JOINT ARRANGEMENT SUFFICIENT TO CONCLUDE THAT THERE IS A JOINT OPERATION?

In principle, yes.

It is highly improbable, from an economic point of view, that the parties to a joint arrangement would agree to grant rights to the assets of the arrangement to some of them, without also having obligations for the liabilities, relating to the arrangement.

In practice, to establish the existence of a joint operation it would be possible, in our view, to merely demonstrate that the parties have rights to the assets of the arrangement.

However, the fact of demonstrating that the parties have an obligation to assume the liabilities of the arrangement would not be sufficient to conclude that there is a joint operation. In practice, the parties frequently undertake to pay the liabilities, for example through guarantees. This element is insufficient to reach a conclusion (see question 16).

11. IS AN ARRANGEMENT WHICH IS NOT CONSTITUTED THROUGH A SEPARATE VEHICLE AUTOMATICALLY A JOINT OPERATION?

Yes.

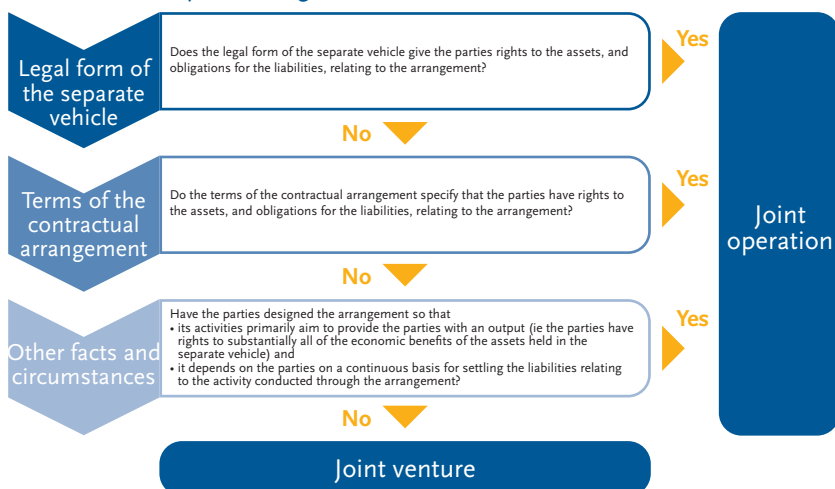
Thus, all jointly controlled assets and jointly controlled operations per IAS 31 are necessarily joint operations under IFRS 11.

In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the joint operation, and also the parties' shares in the corresponding revenues and expenses.

12. WHAT ARE THE STEPS IN THE ANALYSIS OF THE DISTINCTION BETWEEN A JOINT OPERATION AND A JOINT VENTURE FOR AN ARRANGEMENT STRUCTURED THROUGH A SEPARATE VEHICLE?

As indicated in question 9, a separate vehicle may be either a joint operation or a joint venture in the sense of IFRS 11.

The flow chart* below illustrates the main steps in the analysis in order to determine the nature of the joint arrangement under these circumstances.



At each stage, once the analysis concludes that the arrangement structured through a separate vehicle is a joint operation there is no need to continue the analysis.

However, the analysis will have to be conducted until the last stage of the flow chart to be able to conclude that the joint arrangement is a joint venture.

* Flow chart presented in paragraph B33 of IFRS 11 as issued by the IASB.

The examples below are taken from the Illustrative examples which accompany IFRS 11 (somewhat simplified).

Example 1 of Illustrative examples, paragraphs IE2 - IE 8 of IFRS 11:

A and B are two companies whose businesses are the provision of many types of public and private construction services. They obtain a government contract for the construction of a road. The contractual arrangement determines the participation shares of each entity and establishes joint control.

A separate vehicle, entity Z, is set up through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. The assets and liabilities required to construct the road are held in entity Z.

Entity Z's legal form gives the parties A and B rights to the assets, and obligations for the liabilities, of Z.

The contractual arrangement between A and B also establishes that:

- A and B have the rights to all the assets needed to build the road, on the basis of their participation shares in entity Z;
- A and B have several and joint responsibility for all operating and financial obligations relating to the activities of Z, on the basis of their participation shares in the arrangement;
- the profit or loss resulting from the activities of entity Z is shared by A and B on the basis of their participation shares in Z.

For the purposes of co-ordinating and overseeing the construction of the road, A and B appoint an operator, who will be an employee of one of the parties (alternating between A and B).

Entity Z invoices the government on behalf of A and B.

In this case, Z is a joint operation between A and B, because the legal form of the arrangement creates no separation between the assets and liabilities of Z and those of the investors in Z. This analysis is confirmed by the analysis of the contractual arrangement.

Example 5 of Illustrative examples, paragraphs IE 34 - IE 43 of IFRS 11:

Two entities A and B have created a joint arrangement through a distinct legal vehicle (H) and have concluded a “joint operating agreement” (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H’s legal form is that it confers a separation between the assets and liabilities of H and the assets and liabilities of A and B.

Country O has granted entity H exploration and development permits in a specific geographical area.

The shareholders’ agreement states that both parties will appoint a director to the board (A and B each hold 50% of H) and that the unanimous consent of the directors is required for any resolution to be passed.

The JOA establishes an Operating Committee. This Committee consists of two members, nominated by A and B respectively (each party has a 50% participating interest in the Operating Committee). The Operating Committee approves the budgets and work programmes relating to the activities conducted by H.

The JOA also specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party’s shareholding in entity H. For example, A and B jointly hold the exploration permits; production from drilling is also shared 50/50 between the parties.

The costs incurred in relation to all the work programmes are covered by cash calls on A and B, A and B being jointly and severally liable in the event of default by either party.

Even though the vehicle H presents a legal form which creates a separation between the assets and the liabilities of H on the one hand, and the assets and liabilities of A and B on the other, an analysis of the JOA overturns the initial assumption as to the nature of the arrangement. Entity H is a joint operation between A and B.

Example 2 of Illustrative examples, paragraphs IE2 - IE 13 of IFRS 11:

Two real estate companies (entities A and B) set up a separate vehicle (entity X) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the real estate companies establishes the joint control of A and B over X. The main feature of entity X’s legal form is that X, not A and B, has rights to the assets, and obligations for the liabilities, relating to the shopping centre. The activities of X include the rental of the retail units, maintaining the centre and its equipment, managing the car park, etc.

The terms of the contractual arrangement state that:

- entity X owns the shopping centre. The contractual arrangement does not specify that the parties have rights to the shopping centre;
- the parties are not liable in respect of the debts, liabilities or obligations of entity X. Their liability is limited to the unpaid capital contribution (taking account of the contribution of each party);
- the parties have the right to sell or pledge their interests in entity X;
- each party receives a share of the income from operating the shopping centre (rental income net of operating costs) in accordance with its interest in entity X.

Entity X is a joint venture between A and B, since neither the contractual arrangement nor the other facts and circumstances challenge the conclusion of the analysis of the legal form of X, i.e. that A and B are only entitled to a share in the net assets of entity X.

13. IN PRACTICE, WHAT IS THE IMPACT OF THE LEGAL FORM OF THE ARRANGEMENT (IN THE CASE OF A SEPARATE VEHICLE)?

As explained in question 12, the first step in determining the nature of a joint arrangement structured through a separate vehicle, is to consider the legal form of the vehicle.

We should therefore ask whether the legal form of the arrangement makes it possible to separate the assets and liabilities of the arrangement from the assets and liabilities of the venturers (or joint operators, as appropriate)

A legal analysis of the legal form of the arrangement will be required. For example, a limited liability company will probably create a separation between the assets and liabilities of the parties to the arrangement. This should not be the case of an unincorporated partnership which does not have legal personality.

In the case of an arrangement the legal form of which gives the parties rights to the assets and obligations for the liabilities of the arrangement (that is, the separate vehicle cannot be considered separately from the parties in the arrangement), it can be definitively concluded that the arrangement is a joint operation. It will not then be necessary to answer the questions at stages 2 and 3 of the decision tree in question 12.

If this is not the case, in practice it will be necessary to demonstrate at later stages in the analysis (see questions 14 and 17) that the joint arrangement is a joint operation (where appropriate). Without such a “positive” demonstration, the joint arrangement will be classified as a joint venture. Thus, even though the IASB did not specifically want to establish a rebuttable presumption that a separate vehicle whose legal form does not give the parties rights to the assets and obligations to the liabilities of the arrangement is a joint venture, in our opinion such classification may be presumed in that case, even though that presumption may be refuted at later stages in the analysis.

14. HOW SHOULD THE CONTRACTUAL ARRANGEMENTS BETWEEN THE PARTIES TO THE JOINT ARRANGEMENT BE ASSESSED IN PRACTICE (WHERE THE ARRANGEMENT IS A SEPARATE VEHICLE)?

In most cases, the terms of the contractual arrangements should be consistent with the legal form of the joint arrangement, and should generally not conflict with its legal form.

Nevertheless, it is possible that in some situations the parties may use the contractual arrangements to modify substantially the mechanisms arising from the legal form of the arrangement.

In practice, the main terms of these contractual arrangements should therefore be assessed, in particular:

- The general terms of the contractual arrangements: do the terms of the contractual arrangements provide the parties with rights to the assets, and obligations for the liabilities, rather than rights to the net assets of the arrangement?
- Rights to assets: do the terms of the contractual arrangements establish that the parties share all interests (e.g. rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g. in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them), or do the parties have no interests in the assets of the arrangement?
- Obligations for liabilities: do the terms of the contractual arrangements establish that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (see above)? We should also ask whether the parties to the joint arrangement are liable for claims raised by third parties;

- Revenue, expenses, profit or loss: do the contractual arrangements establish the allocation of revenue and expenses on the basis of the relative performance of each party to the joint arrangement (e.g. on the basis of the capacity that each party uses in a plant operated jointly)? Any clauses for the allocation of the profit or loss should be analysed with care (see question 15).

Depending on the answers to the questions above, either the identification of the arrangement as a joint venture will remain to be confirmed when the other facts and circumstances are assessed (see question 17) or the analysis will end at this stage, when it can be concluded that the arrangement is in reality a joint operation (i.e. contrary to what the analysis of the legal form alone of the joint arrangement would suggest).

15. DOES AN ARRANGEMENT FOR SHARING THE PROFIT OR LOSS BETWEEN THE PARTIES NECESSARILY MEAN THAT THE JOINT ARRANGEMENT IS A JOINT VENTURE?

No.

The parties may have agreed to share the profit or loss relating to the arrangement on the basis of a specified proportion, such as the parties' ownership interest in the arrangement.

This method of allocating the profit or loss does not mean that the arrangement is de facto a joint venture.

IFRS 11 stipulates that such a clause does not prevent an arrangement from being a joint operation if the parties also have rights to the assets and obligations for the liabilities of the arrangement.

16. ARE GUARANTEES TO THIRD PARTIES PROVIDED BY THE PARTIES TO A JOINT ARRANGEMENT SUFFICIENT IN THEMSELVES TO DETERMINE THE NATURE OF THE ARRANGEMENT?

No.

IFRS 11 states that the provision of third-party guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation.

The identification of an arrangement structured in a separate vehicle depends on whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).

For example, guarantees may be provided to third parties where the latter receive a service from the joint arrangement, or where they provide financing, without this necessarily meaning that the arrangement is a joint operation.

17. HOW SHOULD THE OTHER FACTS AND CIRCUMSTANCES BE ASSESSED IN PRACTICE (WHERE THE ARRANGEMENT IS A SEPARATE VEHICLE)?

When the terms of the contractual arrangement (see question 14) do not enable to conclude that the arrangement structured in a separate vehicle is a joint operation, IFRS 11 requires to consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.

In practice, assessing the other facts and circumstances should very often confirm the presumption that the arrangement is a joint venture.

However, IFRS 11 identifies one particular situation in which the analysis of the other facts and circumstances will ultimately lead to the conclusion that the joint arrangement is in fact a joint operation.

When the activities of an arrangement are primarily designed for the provision of output to the parties, this indicates that the parties have rights to substantially all the economic benefits of the assets of the arrangement. In such cases, the parties often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.

In this event, the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through the sale of the output to the parties. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, according to IFRS 11 this indicates that in practice the parties have an obligation for the liabilities relating to the arrangement.

Example 5 taken from the Application Guidance (IFRS 11.B32):

Two parties structure a joint arrangement in a separate vehicle (entity C) in which each party has a 50% ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties.

The legal form of entity C initially indicates that the assets and liabilities held in entity C are the assets and liabilities of entity C. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity C. Accordingly, the legal form of entity C and the terms of the contractual arrangement indicate that the arrangement is a joint venture.

However, the parties also consider the following aspects of the arrangement:

- ▶ The parties each agreed to purchase 50% of the output produced by entity C. Entity C cannot sell part of the output to third parties, unless this is approved by both parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- ▶ The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by entity C. On the basis of this operating model, the arrangement is intended to operate at a break-even level.

In view of the above, the following facts and circumstances are relevant:

- ▶ The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of C's liabilities.
- ▶ The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the economic benefits of the assets of entity C.

These facts and circumstances indicate that the arrangement is a joint operation. The conclusion about the classification of the joint arrangement would not change if the parties sold their share of the output to third parties instead of using their share of the output themselves in a subsequent manufacturing process.

If the parties changed the terms of the contractual arrangement so that the enterprise was able to sell output to third parties, this would result in entity C assuming demand, inventory and credit risks. In that case, such a change in the facts and circumstances would require reassessment of the classification of the joint arrangement. The new facts and circumstances would indicate that the arrangement is a joint venture.

The flow chart of paragraph B33 of IFRS 11, presented question 12, seems to indicate that only entities specifically aimed to provide the parties with an output may be classified as joint operations on the basis of the analysis of other facts and circumstances. However, some stakeholders seem to have a more flexible interpretation of the standard. Thus there is a risk that IFRS 11 leads to diversity in practice on this crucial matter.

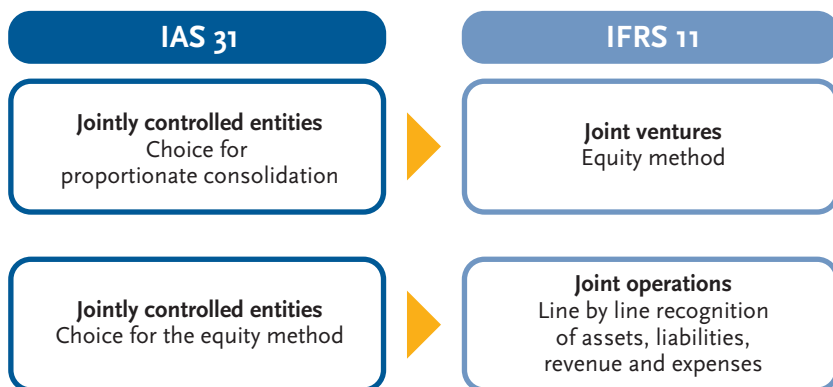
18. HOW SHOULD WE ANALYSE DIFFERENT JOINT ARRANGEMENTS SET UP UNDER A FRAMEWORK AGREEMENT BETWEEN THE PARTIES?

If a framework agreement has been concluded between the parties that sets up the general terms for undertaking one or more activities, for example by establishing different joint arrangements to deal with specific activities, the features of each joint arrangement must be assessed separately from the other joint arrangements that form part of the same framework agreement.

IFRS 11 thus clearly states that under these circumstances, joint operations and joint ventures can coexist, even when these arrangements are related to the same framework agreement.

19. WHAT ARE THE CHANGES IN ACCOUNTING TREATMENT INTRODUCED BY IFRS 11 AS COMPARED TO IAS 31?

The changes in accounting treatment introduced by the first application of IFRS 11 are of two main types, given that a joint arrangement structured through a separate vehicle (i.e. a jointly controlled entity in IAS 31, for which there was a choice of accounting policy) may either be a joint venture or a joint operation in application of IFRS 11.



For jointly controlled entities in the context of IAS 31 which were previously accounted for using the proportionate consolidation method, and which now become joint operations under IFRS 11, there may also be some changes in the consolidated accounts under some circumstances (see question 20).

20. HOW DOES THE METHOD OF ACCOUNTING FOR JOINT OPERATIONS DIFFER FROM PROPORTIONATE CONSOLIDATION?

IFRS 11 states that a joint operator in a joint operation must recognise, in both its consolidated and separate financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

IFRS 11 also states that a joint operator must account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Therefore, the only difference identified by the IASB in the consolidated financial statements between the proportionate consolidation method stipulated in IAS 31 and the method of accounting for joint operations set out in IFRS 11 lies in the fact that IFRS 11 requires an entity with an interest in a joint operation to recognise assets, liabilities, revenues and expenses of the joint operation as

specified in the contractual arrangement, rather than basing the recognition of all assets, liabilities, revenues and expenses on the ownership interest that the entity has in the joint operation. In this sense, where the party's ownership interest in the arrangement differs from what is specified in the contractual arrangement, the method of accounting for joint operations in IFRS 11 is close, but not identical, to the proportionate consolidation method under IAS 31.

In practice, it seems that there are other differences, mainly affecting the statement of comprehensive income, in particular when the joint arrangement is dedicated to providing the parties with an output. Discussions are being held in order to identify those differences and establish good practices.

21. HOW SHOULD WE ACCOUNT FOR TRANSACTIONS BETWEEN A JOINT OPERATOR AND THE JOINT OPERATION?

When a joint operator enters into a transaction with a joint arrangement in which it has an interest (joint operation), such as a sale or contribution of assets, it must eliminate in its separate and consolidated financial statements the gain or loss to the extent of its interest in the joint operation. Therefore, the joint operator shall recognise gains only to the extent of the other parties' interests in the joint operation. When transactions of this type provide evidence of a reduction in the value of the assets to be transferred to the joint operation, those losses shall be recognised fully by the joint operator who transfers the asset.

Besides, when an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party. When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise its share of those losses.

Example:

Two joint operators, X and Y, have created a joint operation Z (an unincorporated company) for the construction of a building. Z is held 60% by X and 40% by Y. X has the rights to 60% of the revenue achieved by Z (Y has rights to 40%).

Z sub-contracts part of the works to a subsidiary of X.

The revenue of Z for year N is 100 (sales to end customer).

The revenue of X's subsidiary from the subcontracting relationship (sales to Z) is 20 (before intra-group eliminations).

In X's consolidated accounts, the revenue will consist (inter alia):

- of the share of Z's revenue to which X is entitled, or $100 \times 60\% = 60$, and
- the share in the revenue of X's subsidiary, after intragroup eliminations, or $20 - (20 \times 60\%) = 8$ (corresponding to the revenue of X's subsidiary vis-à-vis Y).

Thus X's total revenue is 68.

22. WHAT ARE THE MAIN DIFFERENCES BETWEEN THE EQUITY METHOD AND PROPORTIONATE CONSOLIDATION?

As well as the changes to the presentation of the consolidated financial statements caused by moving from proportionate consolidation to the equity method (for example, a reduction in revenue), differences exist between the equity method and the proportionate consolidation method:

- in the event of losses by the joint venture: the proportionate consolidation method required the investor to recognise its share of the loss in the joint venture without limit, whereas with the equity method, if the share of the investor in the losses of the joint venture is equal to or greater than its interest, the investor ceases to recognise its share in the future losses (therefore, the investor's interest is reduced to zero at minimum), unless the investor has incurred a legal or constructive obligation to make up losses, or made payments on behalf of the investee, in which case it must recognise a liability for the additional losses;
- as regards the elimination of intragroup balances, the proportionate consolidation method requires the elimination of all transactions between the investor and the joint venture, on the basis of the investor's ownership interest in the joint venture, whereas the equity method only eliminates (unrealised) internal profits and losses.

Impairment testing also differs, depending on whether the proportionate consolidation or equity methods is used:

- in the case of assets and liabilities proportionately consolidated (including goodwill), IAS 36 applies to non-financial assets while IAS 39 applies to financial assets. In particular, goodwill must be tested at least once a year, and any impairment loss shall not be reversed in a subsequent period;

- in the case of an investment consolidated using the equity method, IAS 28 requires the application of IAS 39 as a first step in order to identify whether there is objective evidence of impairment. If this is the case, IAS 28 then refers to IAS 36 to calculate the recoverable amount of the investment. As goodwill relating to an investment accounted for using the equity method is not accounted for separately in the balance sheet, it is not tested separately from the equity investment line item in which it is included. If subsequently a reversal of an impairment loss is to be recognised in respect of an investment accounted for using the equity method, this will impact profit or loss.

23. WHAT ARE THE CONSEQUENCES OF THE ELIMINATION OF PROPORTIONATE CONSOLIDATION ON THE CONSOLIDATED FINANCIAL STATEMENTS?

In July 2011 the IASB published an impact study* following the publication of IFRS 11. In this study, the IASB assesses the effects of the elimination of the proportionate consolidation method (replaced by the equity method as regards joint ventures).

The IASB has identified the following impacts on the consolidated financial statements of the joint venturers:

- statement of financial position: assets and liabilities will decline (as will the total statement of financial position) to the extent of the entity's share in the joint venture. The investment in the joint venture will be represented by a single line item as investments in entities which are accounted for using the equity method;
- statement of profit or loss and other comprehensive income: income and expenses will decline to the extent of the venturer's ownership interest in the joint venture. The amount of the income statement, however, should not be affected (with some exceptions), given that a share of the profit or loss of the investee is taken into account. As regards financial reporting, these changes could have a weighty impact (reduction in revenue, reduction in operating profit depending on the level at which the share of profit or loss of the investee is presented in the statement of profit or loss, etc.);

* Effect analysis – IFRS 11 Joint Arrangements and disclosures for joint arrangements included in IFRS 12 Disclosure of Interests in Other Entities.

- statement of cash flows: operating, investing and financing cash flow figures will also decline to the extent of the investor's share in the joint venture. Dividends received from joint ventures will be presented as cash flows*, and will therefore no longer be eliminated.

In terms of impact on financial ratios, the IASB notes that:

- debt ratios (e.g. debt/shareholders' equity) will shrink, given the fact that the joint venturers' shares in the liabilities of joint ventures will be eliminated from the consolidated liabilities;
- ratios measuring profitability will increase (e.g. net income/revenue, or operating income/revenue, if the share of the profit or loss of the investee is presented within the operating income).

Finally, although the IASB does not mention it, the impacts will also be felt on banking covenants. These could therefore have to be renegotiated.

24. HOW CAN WE LIMIT THE IMPACT OF THE CHANGE FROM PROPORTIONATE CONSOLIDATION TO THE EQUITY METHOD FOR JOINT VENTURES?

In the likeliest scenario, in which a joint venturer has neither the opportunity nor the wish to take control of the joint venture in order to avoid equity accounting, 'solutions' may be found in order to limit the effects of ceasing to apply proportionate consolidation:

- make use of IFRS 8 on operating segments to present segment information (provided that this information is obtained from the internal reporting regularly reviewed by the entity's chief operating decision maker) 'reproducing' the application of the proportionate consolidation method. IFRS 8 authorises the publication of information determined on the basis of an accounting policy other than IFRS, on condition that this information is reconciled with the financial statements established under the international accounting standards. Care should nevertheless be taken, in financial releases and other statements, to avoid creating confusion between IFRS information and non-IFRS information about the joint ventures;
- present the share in the profit or loss of the investees accounted for using the equity method within the operating income (or the operating income before non-current items, if such an intermediate aggregate is used), as IAS 1 does not explicitly require that this share should

* IAS 7 does not prescribe the category in which these flows should be classified. Nevertheless, they should be presented separately in the statement of cash flows in a consistent manner from one period to another.

be presented immediately before net income. However, it should be noted that this presentation can only be validly chosen if the investees accounted for under the equity method have a profit or loss which consists, by nature, essentially of operating results. Discussions are being held on the possibility of presenting in the income statement two lines of share in net income of equity investments, one within operating income and the other one, more conventionally, below it. This presentation would enable including within operating income the share in net income of equity investments whose activities fall within the operational activities of the group, without integrating within that aggregate those that do not belong there. A strict reading of IAS 1 appears to prohibit the presentation of two separate lines, since it is thus impossible to make a subtotal as regards the share in net income of equity investments.

25. DOES IFRS 11 CLARIFY THE METHOD OF ACCOUNTING FOR THE INVESTMENT IN A JOINT OPERATION OVER WHICH THE INVESTOR DOES NOT ITSELF EXERCISE JOINT CONTROL?

Yes.

IFRS 11 states that a party that participates in, but does not have joint control of, a joint arrangement (i.e. without being a joint operator) shall account for its interest in the joint operation in the same way as a joint operator, if this party also has rights to the assets, and obligations for the liabilities, relating to the joint operation. If this is not the case, such a party must apply the relevant IFRS in accordance with the type of interests held (either IAS 28R in the case of an entity under significant influence, or IAS 39/IFRS 9 otherwise).

26. WHAT ARE THE TRANSITION REQUIREMENTS OF IFRS 11?

The transition requirements of IFRS 11 consist of a simplified retrospective restatement as at the beginning of the earliest period presented.

In practice, and always subject to the adoption of this new standard by the European Union for European companies, this means a transition date of:

- 1 January 2011 for groups presenting two comparative periods and whose financial years are aligned with the calendar year, or

- 1 January 2012 for groups presenting a single comparative period and whose financial years are also aligned with the calendar year.

Furthermore, taking account of IAS 1, an entity applying IFRS 11 for the first time will have to present an additional balance sheet as of the beginning of the earliest comparative period.

In the event of a change from proportionate consolidation to the equity method for the accounting of joint ventures under IFRS 11, the following transition process should be applied:

- the carrying amounts of the assets and liabilities resulting from the application of the proportionate consolidation method (including goodwill) should be aggregated on the 'equity method investments' line at the beginning of the earliest comparative period presented;
- an impairment test should be performed according to IAS 28, any impairment being recorded directly in retained earnings at the beginning of the earliest period presented thus de facto reducing retained earnings.

It should be noted that the exemption from the recognition of deferred tax liabilities and assets under paragraphs 15 and 24 respectively of IAS 12 do not apply when an entity recognises an investment in a joint venture resulting from the implementation of the transition requirements of IFRS 11, in the case of joint ventures which were formerly proportionately consolidated.

Example 1:

Data extracted from the consolidation reporting on the date of transition to IFRS 11 as regards a joint venture recognised using the proportionate consolidation method under IAS 31:

Goodwill	20
Assets	150
Liabilities	(110)
Share of net assets	60

If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged. We have mixed feelings about the appropriateness of requiring allocation on this basis, given that IAS 36 provides for a reallocation of goodwill on the basis of relative values in the event of the disposal of part of a CGU which means, in practice, multiples, DCFs, etc.

Accounting entries at the date of transition to IFRS 11 for moving from proportionate consolidation to the equity method for an investment in a joint venture are:

	Debit	Credit
Equity method investments	60	
Liabilities	110	
Goodwill		20
Assets		150

The investment in the joint venture of 60, recognised as an asset in the consolidated financial statement, must be tested at the transition date in accordance with paragraphs 40 et seq. of IAS 28 as revised in 2011*.

Focus: what should be done in the event of a negative share of net assets in the joint venture on the date of transition to IFRS 11?

In the event of a negative share in the assets and liabilities of the joint venture, the investment in the joint venture is set to zero and the difference is to be allocated to retained earnings as of the beginning of the earliest period presented, unless the joint venturer has a legal or constructive obligation related to the negative net assets.

This is consistent with section 38 of IAS 28 as revised in 2011** which stipulates that if an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. Paragraph 39 of IAS 28 as revised in 2011*** states that after the entity's interest is reduced to zero additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Example 2:

Data extracted from the consolidation reporting on the date of transition to IFRS 11 as regards a joint venture recognised using the proportionate consolidation method under IAS 31:

Goodwill	20
Assets	120
Liabilities	(150)
Share of net assets	(10)

* These paragraphs were not amended in the 2011 revision and correspond to paragraphs 31 et seq. of the earlier version of IAS 28.

** This paragraph was not amended in the 2011 revision and corresponds to paragraph 29 of the earlier version of IAS 28.

*** This paragraph was not amended in the 2011 revision and corresponds to paragraph 30 of the earlier version of IAS 28.

Accounting entries at the date of transition to IFRS 11 for moving from proportionate consolidation to the equity method for an investment in a joint venture:

	Debit	Credit
Equity method investments	0	
Liabilities	150	
Goodwill		20
Assets		120
Retained earnings		10

In this instance, the joint venturer has no legal or implicit obligation to assume a share of the losses beyond its interest in the joint venture. Otherwise, a provision would have to be recognised (in place of the entry in retained earnings).

In the event of a change from the equity method to the line-by-line recognition of assets and liabilities for joint operations under IFRS 11, the following transition process should be applied:

- derecognition of the equity accounted investment;
- recognition of the joint operator's share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment, as at the beginning of the earliest period presented on the basis of the contractual arrangements and the relevant IFRSs;
- recognition of any difference resulting from this process in retained earnings, being aware that any impairment loss previously recognised as regard the investment accounted for using the equity method will have first to reduce goodwill (which is now recognised separately).

Example 3:

Data extracted from the consolidation reporting on the date of transition to IFRS 11 as regards a joint operation recognised using the equity method under IAS 31:

Equity method investments		120
Including:	Goodwill	10
	Assets (share)	150
	Liabilities (share)	(40)

Accounting entries at the date of transition to IFRS 11 for moving from the equity method to a line-by-line recognition of a share in the assets and liabilities of an investment in a joint operation:

	Debit	Credit
Goodwill	10	
Assets	150	
Liabilities		40
Equity method investments		120

This example assumes that the joint operator's share in the assets and liabilities of the joint operation corresponds to its percentage of ownership interest in the joint arrangement. If this is not the case (see question 20), the difference between the value of the equity-accounted investment and the joint operator's share in the assets and liabilities of the joint operation shall be recognised in retained earnings.

Example 4:

Data extracted from the consolidation reporting on the date of transition to IFRS 11 as regards a joint operation recognised using the equity method under IAS 31:

Equity method investments		100
Including:	Goodwill	10
	Assets (share)	150
	Liabilities (share)	(40)
	Depreciation	(20)

Accounting entries at the date of transition to IFRS 11 for moving from the equity method to a line-by-line recognition of a share in the assets and liabilities for investments in a joint operation:

	Debit	Credit
Goodwill	0	
Assets	150	
Liabilities		40
Equity method investments		100
Retained earnings		10

The previously unallocated impairment loss as regards an investment in a jointly controlled entity accounted for using the equity method reduces goodwill first, the balance being recognised in retained earnings.

27. WHAT SPECIFIC DISCLOSURES MUST BE PRESENTED BY AN ENTITY TRANSITIONING FROM IAS 31 TO IFRS 11?

Although the disclosures to be provided as regards interests in joint arrangements are now listed in IFRS 12, IFRS 11 requires certain specific information to be presented in the course of the transition from IAS 31 to IFRS 11.

For joint ventures previously accounted for using the proportionate consolidation method and for which the equity method now has to be applied, IFRS 11 requires an indication of:

- the extent to which the opening retained earnings were adjusted at the beginning of the earliest period presented to take account of negative net assets in respect of a joint venture (see question 26);
- the share of losses accumulated in respect of joint ventures not recognised as a liability at the beginning of the earliest period presented, and on the date on which IFRS 11 is first applied (see example 2 in question 26);
- the breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the earliest period presented. This information must be given in an aggregated manner for all joint ventures for which a change from proportionate consolidation to the equity method has been carried out when applying the transition requirements of IFRS 11.

For joint operations previously accounted for using the equity method and for which the joint operator now has to recognise its share of assets and liabilities line by line, IFRS 11 requires the presentation of a reconciliation between:

- investments accounted for using the equity method which have been derecognised, and
- the assets and liabilities which have been recognised, together with
- any remaining difference adjusted against retained earnings.

This reconciliation is presented at the beginning of the earliest period presented.

28. WHAT DISCLOSURES SHALL BE PROVIDED ABOUT INTERESTS IN JOINT ARRANGEMENTS UNDER IFRS 12?

IFRS 12 first states that an entity should disclose information about significant judgments and assumptions (and about the changes in these judgments and assumptions during the financial reporting period presented) it has made in determining:

- that it has joint control of an arrangement, and
- the type of joint arrangement (joint operation or joint venture), when the arrangement has been structured through a separate legal vehicle.

Secondly, IFRS 12 lists the disclosures to be made where an entity holds interests in joint arrangements. The standard states that the disclosures should enable the users of financial information to assess:

- the nature, extent and financial effects of its interests in joint arrangements, including the nature and effects of its contractual relationship with the other investors with joint control of joint arrangements; and
- the nature of, and changes in, the risks associated with its interests in joint ventures.

Nature, extent and financial effects of an entity's interests in joint arrangements*

The entity must disclose:

- for each joint arrangement that is material to the reporting entity:
 - the name of the joint arrangement;
 - the nature of the relationship between the entity and the joint arrangement;
 - the main place of business of the joint arrangement, and the country of incorporation if different;
 - the proportion of ownership interest or preferential shares with participating rights held by the entity and, if different, the proportion of voting rights held;
- for each joint venture that is material to the reporting entity, the entity must disclose:
 - whether the investment in the joint venture is measured at fair value (taking account of the exemption on the use of the equity method under certain conditions under IAS 28 as revised in May 2011);

* The summarised disclosures which are new as compared to IAS 31 are in **bold**.

- summarised financial information as follows, which shall be the amounts included in the IFRS financial statements of the joint venture* (and not the entity's share of those amounts), IFRS 12 requiring the presentation of a reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture:
 - **dividends received from the joint venture;**
 - current assets (including **cash and cash equivalents**) and non-current assets;
 - current liabilities (including **current financial liabilities, excluding trade and other payables and provisions**) and non-current liabilities (including **non-current financial liabilities, excluding trade and other payables and provisions**);
 - **revenue;**
 - **depreciation and amortisation;**
 - **interest income and interest expense;**
 - **income tax expense or income;**
 - **profit or loss from continuing operations;**
 - **post-tax profit or loss from discontinued operations;**
 - **other comprehensive income;**
 - **total comprehensive income;**
- if the joint venture is accounted for using the equity method, the fair value of its investment in the joint venture, if there is a quoted market price for the investment;
- summarised financial information as follows, about the entity's investments in joint ventures that are not individually material, and which shall be presented in aggregate for all individually immaterial joint ventures:
 - the carrying amount of its interests in all individually immaterial joint ventures that are accounted for using the equity method;
 - the aggregate amount of its share of those joint ventures':
 - **profit or loss from continuing operations;**
 - **post-tax profit or loss from discontinued operations;**

** When the equity method is used (no use of the fair value option), the amounts included in the IFRS financial statements of the joint venture shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies. The joint venture's (non-IFRS) financial statements may be used if the joint venture does not prepare IFRS financial statements and the preparation of such financial statements would be impracticable, or would entail excessive costs.*

- **other comprehensive income;**
- **total comprehensive income.**

The entity shall also indicate:

- the nature and extent of any significant restrictions (eg resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of a joint venture) on the ability of joint ventures to transfer funds to the entity in the form of cash dividends, or to repay loans or advances made by the entity;
- when the financial statements of a joint venture used in applying the equity method are as of a date or for a period that is different from that of the entity:
 - the date of the end of the reporting period of the financial statements of that joint venture; and
 - the reason for using a different date or period.
- the unrecognised share of losses of a joint venture for the reporting period and cumulatively, if the entity has stopped recognising its share of losses of the joint venture when applying the equity method (see question 22).

The risks associated with an entity's interests in joint arrangements

Finally, the entity shall disclose:

- the commitments that it has relating to its joint ventures separately from the amount of other commitments, including its share of commitments made jointly with other investors with joint control of a joint venture. These commitments are those that may give rise to a future outflow of cash or other resources. They include:
 - unrecognised commitments to contribute funding or resources as a result of, for example:
 - the constitution or acquisition agreements of a joint venture;
 - capital-intensive projects undertaken by a joint venture;
 - unconditional purchase obligations, comprising procurement of equipment, inventory or services that an entity is committed to purchasing from, or on behalf of, a joint venture;
 - unrecognised commitments to provide loans or other financial support to a joint venture;

- unrecognised commitments to contribute resources to a joint venture, such as assets or services;
- other non-cancellable unrecognised commitments relating to a joint venture;
- unrecognised commitments to acquire another party's ownership interest (or a portion of that ownership interest) in a joint venture if a particular event occurs or does not occur in the future.
- in accordance with IAS 37, and unless the probability of loss is remote, the entity shall also disclose contingent liabilities incurred relating to its interests in joint ventures, including its share of contingent liabilities incurred jointly with other investors with joint control of the joint ventures, separately from the amount of other contingent liabilities.

Like IFRS 11, IFRS 12 shall be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

An entity is encouraged to provide the disclosures required by IFRS 12 earlier than annual periods beginning on or after 1 January 2013. Entities may therefore provide some of the disclosures required by IFRS 12 before it comes into force without having to comply with all of the requirements of this standard, or have to proceed to earlier application of IFRS 10, IFRS 11 and IAS 28 as amended in May 2011 (see question 1).

29. WHAT ARE THE MAIN AMENDMENTS TO IAS 28 AS REVISED IN MAY 2011?

IAS 28 has been revised to take account of the changes brought about by IFRS 11. Thus IAS 28 now sets out the accounting method for investments in associates and joint ventures. In practice, the equity method has not been changed.

Nevertheless, IAS 28 has been amended in some specific areas:

- incorporation of the SIC 13 interpretation, Jointly Controlled Entities – Non-Monetary Contributions by Venturers in the revised standard*. From now on, no gain or loss is recognised only if the transaction has no commercial substance, in compliance with IAS 16;

* This inclusion has not resolved the contradiction which previously existed between IAS 27 (for the provisions for consolidated accounts which are now in IFRS 10) and IAS 31, in the case of a contribution from a subsidiary to a joint venture.

- classification as held for sale: when an investment, or a portion of an investment, in an associate or a joint venture meets the criteria to be classified as held for sale, the portion so classified is accounted for in accordance with IFRS 5. Any remaining portion which has not been classified as held for sale is accounted for using the equity method until the disposal of the portion classified as held for sale. After disposal, the investor shall account for any retained interest in an associate or a joint venture in accordance with IFRS 9/IAS 39, unless the retained interest continues to be an associate or a joint venture, in which case the equity method continues to apply. In the event of partial disposal of interests in an associate or a joint venture, IAS 28 as revised in May 2011 therefore requires a 'sliced approach', in contrast to the requirements of IFRS 5 in the event of partial disposal of an entity implying a loss of control (resulting in the classification of the entirety of the interest as held for sale);
- increase in the ownership interest in an associate, additional interests acquired conferring joint control over the interest: IAS 28R now prohibits remeasurement at fair value of the interest previously held. Moving from significant influence to joint control is therefore no longer regarded as a major economic event, in contrast to the requirements in the previous standards (i.e. before the publication of the new consolidation standards) and in contrast to the step acquisitions conferring control according to IFRS 10;
- reduction in ownership interest in a joint venture, while retaining an interest in an associate (i.e. significant influence): IAS 28R prohibits remeasurement at fair value of the retained interest. Loss of control is therefore no longer regarded as a major economic event, in contrast to the requirements in the consolidation standards before May 2011 publications (and in contrast to the requirements of IFRS 10 in the event of partial disposal leading to loss of control).

30. WHAT ARE THE TOP TEN POINTS TO REMEMBER?

1. Effective application for annual periods beginning on or after 1 January 2013, subject to endorsement by the European Union (for European companies). Earlier application permitted subject to meeting certain conditions.
2. The transition requirements of IFRS 11 consist of a simplified retrospective restatement as at the beginning of the earliest period presented, a priori 1 January 2012 for groups presenting one comparative period and ending their annual reporting periods on 31 December.
3. The definition of joint control rests on the new definition of control as given in IFRS 10. In practice, the changes brought to this definition should not make a significant difference to the scope of jointly controlled entities.
4. IFRS 11 identifies two types of joint arrangements: joint operations and joint ventures. The classification of a joint arrangement depends on the rights and obligations of the parties:
 - a. in a joint operation, the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement;
 - b. in a joint venture, the parties have rights to the net assets of the arrangement.
5. The structuring of the joint arrangement through a separate vehicle is no longer a determining criteria for identifying the nature of a joint arrangement:
 - a. a separate vehicle over which joint control is exercised may either be a joint operation or a joint venture;
 - b. however, an arrangement which is not constituted through a separate vehicle is always a joint operation.
6. There is no longer any choice of accounting method for a given type of joint arrangement (unlike under IAS 31 for jointly controlled entities):
 - a. joint operations shall be accounted for using a method which is close to proportionate consolidation;
 - b. joint ventures are recognised using the equity method (application of IAS 28 as revised in May 2011).

7. The identification of joint arrangements that are structured as separate vehicles is based on an assessment of:
 - a. the legal form of the joint arrangement;
 - b. the terms of the contractual arrangements;
 - c. the other facts and circumstances.

In practice, a separate legal entity the form of which separates the assets and liabilities of the entity from those of its shareholders will be presumed to be a joint venture. This presumption may be refuted in the light of the analysis of the contractual arrangements and the other facts and circumstances.

8. The accounting method for joint operations structured as separate vehicles in IFRS 11 is close to the proportionate consolidation method under IAS 31. The only difference for establishing the consolidated accounts lies in the fact that IFRS 11 states that the joint operator's share of the assets, liabilities, revenue and expenses must be determined by reference to its specific rights in the assets (considering the terms of the contractual arrangements) rather than on the basis of its ownership interest in the joint arrangement.
9. It is possible to limit the effects of the change from proportionate consolidation (under IAS 31) to the equity method (under IFRS 11) for joint ventures, in particular by presenting the share of the profit or loss of entities accounted for using the equity method in the operating result where the investments in these joint ventures are linked to the operating performance of the group.
10. The disclosures to be provided as regards an entity's interests in joint arrangements are set out in IFRS 12.

Contacts:

Michel Barbet-Massin

Edouard Fossat

Mazars

61, rue Henri Regnault
92075 Paris - La Défense
France

Tel.: +33 (0)1 49 97 60 00

Fax: +33 (0)1 49 97 60 01