

HKFRS 11
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Hong Kong Financial Reporting Standard 11

Joint Arrangements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Hong Kong Financial Reporting Standard 11 *Joint Arrangements* (HKFRS 11) is set out in paragraphs 1–27 and Appendices A–D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for Hong Kong Financial Reporting Standards. HKFRS 11 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Overview

- IN1 Hong Kong Financial Reporting Standard 11 *Joint Arrangements* establishes principles for financial reporting by parties to a joint arrangement.
- IN2 The HKFRS supersedes HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Reasons for issuing the HKFRS

- IN3 The HKFRS is concerned principally with addressing two aspects of HKAS 31: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for interests in jointly controlled entities.
- IN4 HKFRS 11 improves on HKAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.
- IN4A In June 2014 the HKICPA amended HKFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

Main features of the HKFRS

- IN5 The HKFRS requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement.

General requirements

- IN6 The HKFRS is to be applied by all entities that are a party to a joint arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. The HKFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (ie activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.
- IN7 The HKFRS classifies joint arrangements into two types—joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement.

JOINT ARRANGEMENTS

- IN8 An entity determines the type of joint arrangement in which it is involved by considering its rights and obligations. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances.
- IN9 The HKFRS requires a joint operator to recognise and measure the assets and liabilities (and recognise the related revenues and expenses) in relation to its interest in the arrangement in accordance with relevant HKFRSs applicable to the particular assets, liabilities, revenues and expenses.
- IN9A This HKFRS requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in HKFRS 3 *Business Combinations*, to apply all of the principles on business combinations accounting in HKFRS 3 and other HKFRSs except for those principles that conflict with the guidance in this HKFRS. In addition, the acquirer shall disclose the information required by HKFRS 3 and other HKFRSs for business combinations.
- IN10 The HKFRS requires a joint venturer to recognise an investment and to account for that investment using the equity method in accordance with HKAS 28 *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that standard.
- IN11 The disclosure requirements for parties with joint control of a joint arrangement are specified in HKFRS 12 *Disclosure of Interests in Other Entities*.

Hong Kong Financial Reporting Standard 11

Joint Arrangements

Objective

- 1 The objective of this HKFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (ie *joint arrangements*).

Meeting the objective

- 2 To meet the objective in paragraph 1, this HKFRS defines *joint control* and requires an entity that is a *party to a joint arrangement* to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

Scope

- 3 This HKFRS shall be applied by all entities that are a party to a joint arrangement.

Joint arrangements

- 4 A joint arrangement is an arrangement of which two or more parties have joint control.
- 5 A joint arrangement has the following characteristics:
- (a) The parties are bound by a contractual arrangement (see paragraphs B2–B4).
 - (b) The contractual arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 7–13).
- 6 A joint arrangement is either a *joint operation* or a *joint venture*.

Joint control

- 7 Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- 8 An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities).

- 9 Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively, joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively.
- 10 In a joint arrangement, no single party controls the arrangement on its own. A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement.
- 11 An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This HKFRS distinguishes between parties that have joint control of a joint arrangement (*joint operators* or *joint venturers*) and parties that participate in, but do not have joint control of, a joint arrangement.
- 12 An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances (see paragraphs B5–B11).
- 13 If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Types of joint arrangement

- 14 **An entity shall determine the type of joint arrangement in which it is involved. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.**
- 15 **A joint operation is 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. Those parties are called joint operators.**
- 16 **A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.**
- 17 An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture. An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances (see paragraphs B12–B33).
- 18 Sometimes the parties are bound by a framework agreement that sets up the general contractual terms for undertaking one or more activities. The framework agreement might set out that the parties establish different joint arrangements to deal with specific activities that form part of the agreement. Even though those joint arrangements are related to the same framework agreement, their type might be different if the parties' rights and obligations differ when undertaking the different activities dealt with in the framework agreement. Consequently, joint operations and joint ventures can coexist when the parties undertake different activities that form part of the same framework agreement.
- 19 If facts and circumstances change, an entity shall reassess whether the type of joint arrangement in which it is involved has changed.

Financial statements of parties to a joint arrangement

Joint operations

- 20 A joint operator shall recognise in relation to its interest in a joint operation:**
- (a) its assets, including its share of any assets held jointly;**
 - (b) its liabilities, including its share of any liabilities incurred jointly;**
 - (c) its revenue from the sale of its share of the output arising from the joint operation;**
 - (d) its share of the revenue from the sale of the output by the joint operation; and**
 - (e) its expenses, including its share of any expenses incurred jointly.**
- 21 A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.
- 21A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in HKFRS 3, and other HKFRSs, that do not conflict with the guidance in this HKFRS and disclose the information that is required in those HKFRSs in relation to business combinations. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes a business. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs B33A–B33D.
- 22 The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in paragraphs B34–B37.
- 23 A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with paragraphs 20–22 if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party that participates in, but does not have joint control of, a joint operation does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the HKFRSs applicable to that interest.

Joint ventures

- 24 A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with HKAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted from applying the equity method as specified in that standard.**
- 25 A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with HKFRS 9 *Financial Instruments*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with HKAS 28 (as amended in 2011).

Separate financial statements

- 26** In its separate financial statements, a joint operator or joint venturer shall account for its interest in:
- (a)** a joint operation in accordance with paragraphs 20–22;
 - (b)** a joint venture in accordance with paragraph 10 of HKAS 27 *Separate Financial Statements*.
- 27** In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in:
- (a)** a joint operation in accordance with paragraph 23;
 - (b)** a joint venture in accordance with HKFRS 9, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 10 of HKAS 27 (as amended in 2011).

Appendix A

Defined terms

This appendix is an integral part of the HKFRS.

joint arrangement	An arrangement of which two or more parties have joint control .
joint control	The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
joint operation	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.
joint operator	A party to a joint operation that has joint control of that joint operation.
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
joint venturer	A party to a joint venture that has joint control of that joint venture.
party to a joint arrangement	An entity that participates in a joint arrangement , regardless of whether that entity has joint control of the arrangement.
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

The following terms are defined in HKAS 27 (as amended in 2011), HKAS 28 (as amended in 2011) or HKFRS 10 *Consolidated Financial Statements* and are used in this HKFRS with the meanings specified in those HKFRSs:

- control of an investee
- equity method
- power
- protective rights
- relevant activities
- separate financial statements
- significant influence.

Appendix B

Application guidance

This appendix is an integral part of the HKFRS. It describes the application of paragraphs 1–27 and has the same authority as the other parts of the HKFRS.

- B1 The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying HKFRS 11.

Joint arrangements

Contractual arrangement (paragraph 5)

- B2 Contractual arrangements can be evidenced in several ways. An enforceable contractual arrangement is often, but not always, in writing, usually in the form of a contract or documented discussions between the parties. Statutory mechanisms can also create enforceable arrangements, either on their own or in conjunction with contracts between the parties.
- B3 When joint arrangements are structured through a *separate vehicle* (see paragraphs B19–B33), the contractual arrangement, or some aspects of the contractual arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.
- B4 The contractual arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The contractual arrangement generally deals with such matters as:
- (a) the purpose, activity and duration of the joint arrangement.
 - (b) how the members of the board of directors, or equivalent governing body, of the joint arrangement, are appointed.
 - (c) the decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters. The decision-making process reflected in the contractual arrangement establishes joint control of the arrangement (see paragraphs B5–B11).
 - (d) the capital or other contributions required of the parties.
 - (e) how the parties share assets, liabilities, revenues, expenses or profit or loss relating to the joint arrangement.

Joint control (paragraphs 7–13)

- B5 In assessing whether an entity has joint control of an arrangement, an entity shall assess first whether all the parties, or a group of the parties, control the arrangement. HKFRS 10 defines control and shall be used to determine whether all the parties, or a group of the parties, are exposed, or have rights, to variable returns from their involvement with the arrangement and have the ability to affect those returns through their power over the arrangement. When all the parties, or a group of the parties, considered collectively, are able to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities), the parties control the arrangement collectively.
- B6 After concluding that all the parties, or a group of the parties, control the arrangement collectively, an entity shall assess whether it has joint control of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that collectively control the arrangement. Assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties, or controlled by one of its parties alone, can require judgement.
- B7 Sometimes the decision-making process that is agreed upon by the parties in their contractual arrangement implicitly leads to joint control. For example, assume two

parties establish an arrangement in which each has 50 per cent of the voting rights and the contractual arrangement between them specifies that at least 51 per cent of the voting rights are required to make decisions about the relevant activities. In this case, the parties have implicitly agreed that they have joint control of the arrangement because decisions about the relevant activities cannot be made without both parties agreeing.

- B8 In other circumstances, the contractual arrangement requires a minimum proportion of the voting rights to make decisions about the relevant activities. When that minimum required proportion of the voting rights can be achieved by more than one combination of the parties agreeing together, that arrangement is not a joint arrangement unless the contractual arrangement specifies which parties (or combination of parties) are required to agree unanimously to decisions about the relevant activities of the arrangement.

Application examples

Example 1

Assume that three parties establish an arrangement: A has 50 per cent of the voting rights in the arrangement, B has 30 per cent and C has 20 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of B. The terms of their contractual arrangement requiring at least 75 per cent of the voting rights to make decisions about the relevant activities imply that A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing.

Example 2

Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The contractual arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the arrangement. Even though A can block any decision, it does not control the arrangement because it needs the agreement of either B or C. In this example, A, B and C collectively control the arrangement. However, there is more than one combination of parties that can agree to reach 75 per cent of the voting rights (ie either A and B or A and C). In such a situation, to be a joint arrangement the contractual arrangement between the parties would need to specify which combination of the parties is required to agree unanimously to decisions about the relevant activities of the arrangement.

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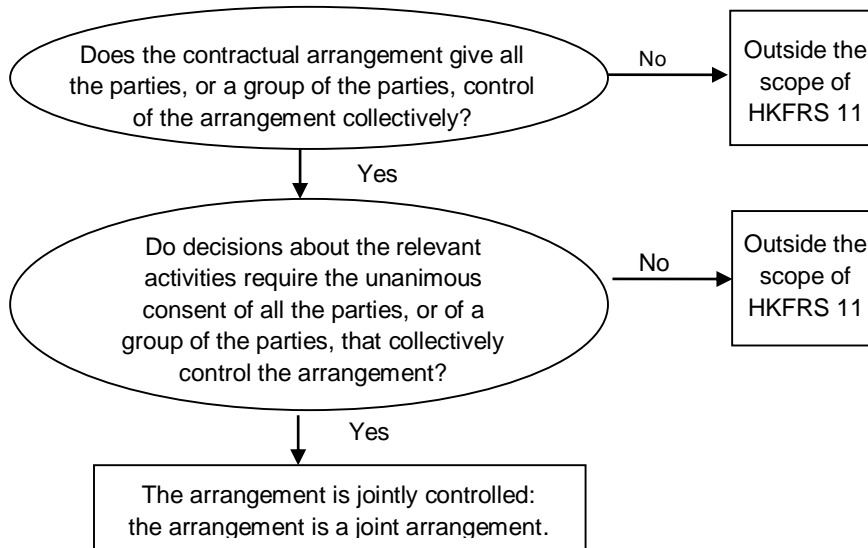
Application examples

Example 3

Assume an arrangement in which A and B each have 35 per cent of the voting rights in the arrangement with the remaining 30 per cent being widely dispersed. Decisions about the relevant activities require approval by a majority of the voting rights. A and B have joint control of the arrangement only if the contractual arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- B9 The requirement for unanimous consent means that any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent. If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement.
- B10 A contractual arrangement might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

Assessing joint control



- B11 When an arrangement is outside the scope of HKFRS 11, an entity accounts for its interest in the arrangement in accordance with relevant HKFRSs, such as HKFRS 10, HKAS 28 (as amended in 2011) or HKFRS 9.

Types of joint arrangement (paragraphs 14–19)

- B12 Joint arrangements are established for a variety of purposes (eg as a way for parties to share costs and risks, or as a way to provide the parties with access to new technology or new markets), and can be established using different structures and legal forms.
- B13 Some arrangements do not require the activity that is the subject of the arrangement to be undertaken in a separate vehicle. However, other arrangements involve the establishment of a separate vehicle.
- B14 The classification of joint arrangements required by this HKFRS depends upon the parties' rights and obligations arising from the arrangement in the normal course of business. This HKFRS classifies joint arrangements as either joint operations or joint ventures. When an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. Paragraphs B16–B33 set out the assessment an entity carries out to determine whether it has an interest in a joint operation or an interest in a joint venture.

Classification of a joint arrangement

- B15 As stated in paragraph B14, the classification of joint arrangements requires the parties to assess their rights and obligations arising from the arrangement. When making that assessment, an entity shall consider the following:
- (a) the structure of the joint arrangement (see paragraphs B16–B21).
 - (b) when the joint arrangement is structured through a separate vehicle:
 - (i) the legal form of the separate vehicle (see paragraphs B22–B24);
 - (ii) the terms of the contractual arrangement (see paragraphs B25–B28); and
 - (iii) when relevant, other facts and circumstances (see paragraphs B29–B33).

Structure of the joint arrangement

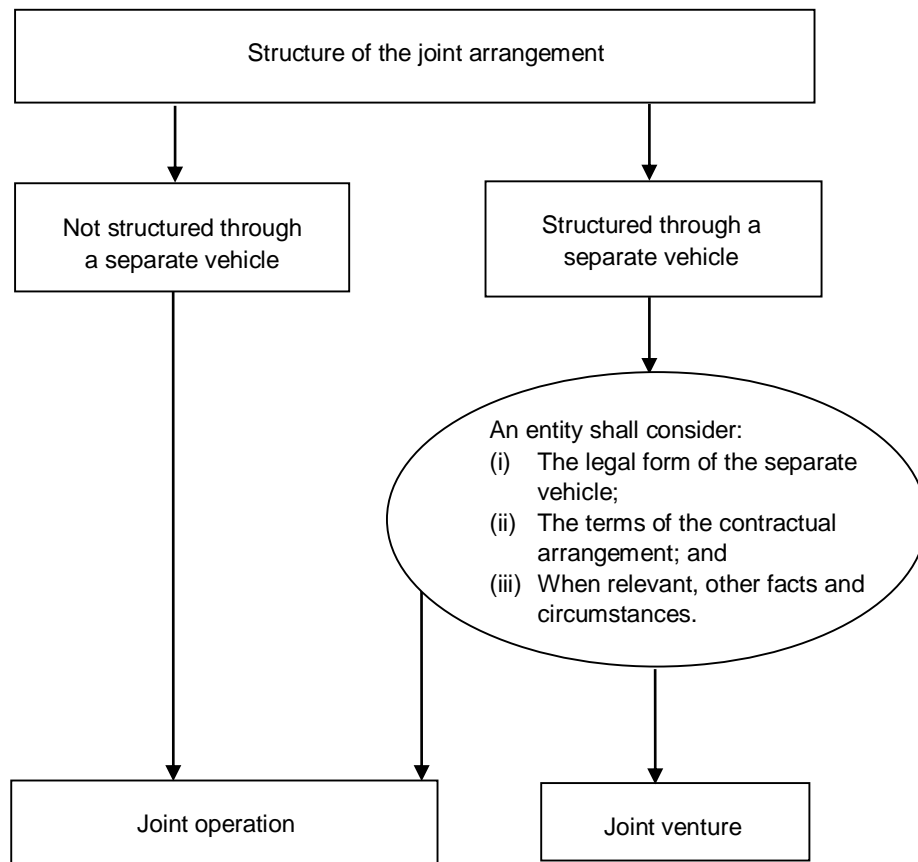
Joint arrangements not structured through a separate vehicle

- B16 A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.
- B17 The contractual arrangement often describes the nature of the activities that are the subject of the arrangement and how the parties intend to undertake those activities together. For example, the parties to a joint arrangement could agree to manufacture a product together, with each party being responsible for a specific task and each using its own assets and incurring its own liabilities. The contractual arrangement could also specify how the revenues and expenses that are common to the parties are to be shared among them. In such a case, each joint operator recognises in its financial statements the assets and liabilities used for the specific task, and recognises its share of the revenues and expenses in accordance with the contractual arrangement.
- B18 In other cases, the parties to a joint arrangement might agree, for example, to share and operate an asset together. In such a case, the contractual arrangement establishes the parties' rights to the asset that is operated jointly, and how output or revenue from the asset and operating costs are shared among the parties. Each joint operator accounts for its share of the joint asset and its agreed share of any liabilities, and recognises its share of the output, revenues and expenses in accordance with the contractual arrangement.

Joint arrangements structured through a separate vehicle

- B19 A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.
- B20 Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement that are held in the separate vehicle.
- B21 As stated in paragraph B15, when the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:
- (a) rights to the assets, and obligations for the liabilities, relating to the arrangement (ie the arrangement is a joint operation); or
 - (b) rights to the net assets of the arrangement (ie the arrangement is a joint venture).
- Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement

Classification of a joint arrangement: assessment of the parties' rights and obligations arising from the arrangement



The legal form of the separate vehicle

- B22 The legal form of the separate vehicle is relevant when assessing the type of joint arrangement. The legal form assists in the initial assessment of the parties' rights to the assets and obligations for the liabilities held in the separate vehicle, such as whether the parties have interests in the assets held in the separate vehicle and whether they are liable for the liabilities held in the separate vehicle.

- B23 For example, the parties might conduct the joint arrangement through a separate vehicle, whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the arrangement is a joint venture. However, the terms agreed by the parties in their contractual arrangement (see paragraphs B25–B28) and, when relevant, other facts and circumstances (see paragraphs B29–B33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.
- B24 The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties’ assets and liabilities).

Assessing the terms of the contractual arrangement

- B25 In many cases, the rights and obligations agreed to by the parties in their contractual arrangements are consistent, or do not conflict, with the rights and obligations conferred on the parties by the legal form of the separate vehicle in which the arrangement has been structured.
- B26 In other cases, the parties use the contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle in which the arrangement has been structured.

<p>Application example</p>
<p>Example 4</p> <p>Assume that two parties structure a joint arrangement in an incorporated entity. Each party has a 50 per cent ownership interest in the incorporated entity. The incorporation enables the separation of the entity from its owners and as a consequence the assets and liabilities held in the entity are the assets and liabilities of the incorporated entity. In such a case, the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle indicates that the parties have rights to the net assets of the arrangement.</p> <p>However, the parties modify the features of the corporation through their contractual arrangement so that each has an interest in the assets of the incorporated entity and each is liable for the liabilities of the incorporated entity in a specified proportion. Such contractual modifications to the features of a corporation can cause an arrangement to be a joint operation.</p>

- B27 The following table compares common terms in contractual arrangements of parties to a joint operation and common terms in contractual arrangements of parties to a joint venture. The examples of the contractual terms provided in the following table are not exhaustive.

Assessing the terms of the contractual arrangement		
	Joint operation	Joint venture
The terms of the contractual arrangement	The contractual arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The contractual arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (ie it is the separate vehicle, not the parties, that has rights to the assets, and obligations for the liabilities, relating to the arrangement).
Rights to assets	The contractual arrangement establishes that the parties to the joint arrangement share all interests (eg rights, title or ownership) in the assets relating to the arrangement in a specified proportion (eg 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).	The contractual arrangement establishes that the assets brought into the arrangement or subsequently acquired by the joint arrangement are the arrangement's assets. The parties have no interests (ie no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The contractual arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (eg 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).	The contractual arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.
		The contractual arrangement establishes that the parties to the joint arrangement are liable to the arrangement only to the extent of their respective investments in the arrangement or to their respective obligations to contribute any unpaid or additional capital to the arrangement, or both.
	The contractual arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The contractual arrangement states that creditors of the joint arrangement do not have rights of recourse against any party with respect to debts or obligations of the arrangement.
		<i>continued...</i>

<i>...continued</i>		
Assessing the terms of the contractual arrangement		
	Joint operation	Joint venture
Revenues, expenses, profit or loss	<p>The contractual arrangement establishes the allocation of revenues and expenses on the basis of the relative performance of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement. In other instances, the parties might 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 would not prevent the arrangement from being a joint operation if the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.</p>	<p>The contractual arrangement establishes each party's share in the profit or loss relating to the activities of the arrangement.</p>
Guarantees	<p>The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is 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).</p>	

- B28 When the contractual arrangement specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, they are parties to a joint operation and do not need to consider other facts and circumstances (paragraphs B29–B33) for the purposes of classifying the joint arrangement.

Assessing other facts and circumstances

- B29 When the terms of the contractual arrangement do not specify that the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement, the parties shall consider other facts and circumstances to assess whether the arrangement is a joint operation or a joint venture.
- B30 A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The contractual terms agreed among the parties might not specify the parties' rights to the assets and obligations for the liabilities, yet consideration of other facts and circumstances can lead to such an arrangement being classified as a joint operation. This will be the case when other facts and circumstances give the parties rights to the assets, and obligations for the liabilities, relating to the arrangement.
- B31 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. The parties to such arrangements often ensure their access to the outputs provided by the arrangement by preventing the arrangement from selling output to third parties.
- B32 The effect of an arrangement with such a design and purpose is that the liabilities incurred by the arrangement are, in substance, satisfied by the cash flows received from the parties through their purchases of the output. When the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties have an obligation for the liabilities relating to the arrangement.

Application example

Example 5

Assume that two parties structure a joint arrangement in an incorporated entity (entity C) in which each party has a 50 per cent 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 (an incorporated entity) through which the activities are conducted 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.

continued...

...continued

Application example

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

- The parties agreed to purchase all the output produced by entity C in a ratio of 50:50. Entity C cannot sell any of the output to third parties, unless this is approved by the two 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.

From the fact pattern above, the following facts and circumstances are relevant:

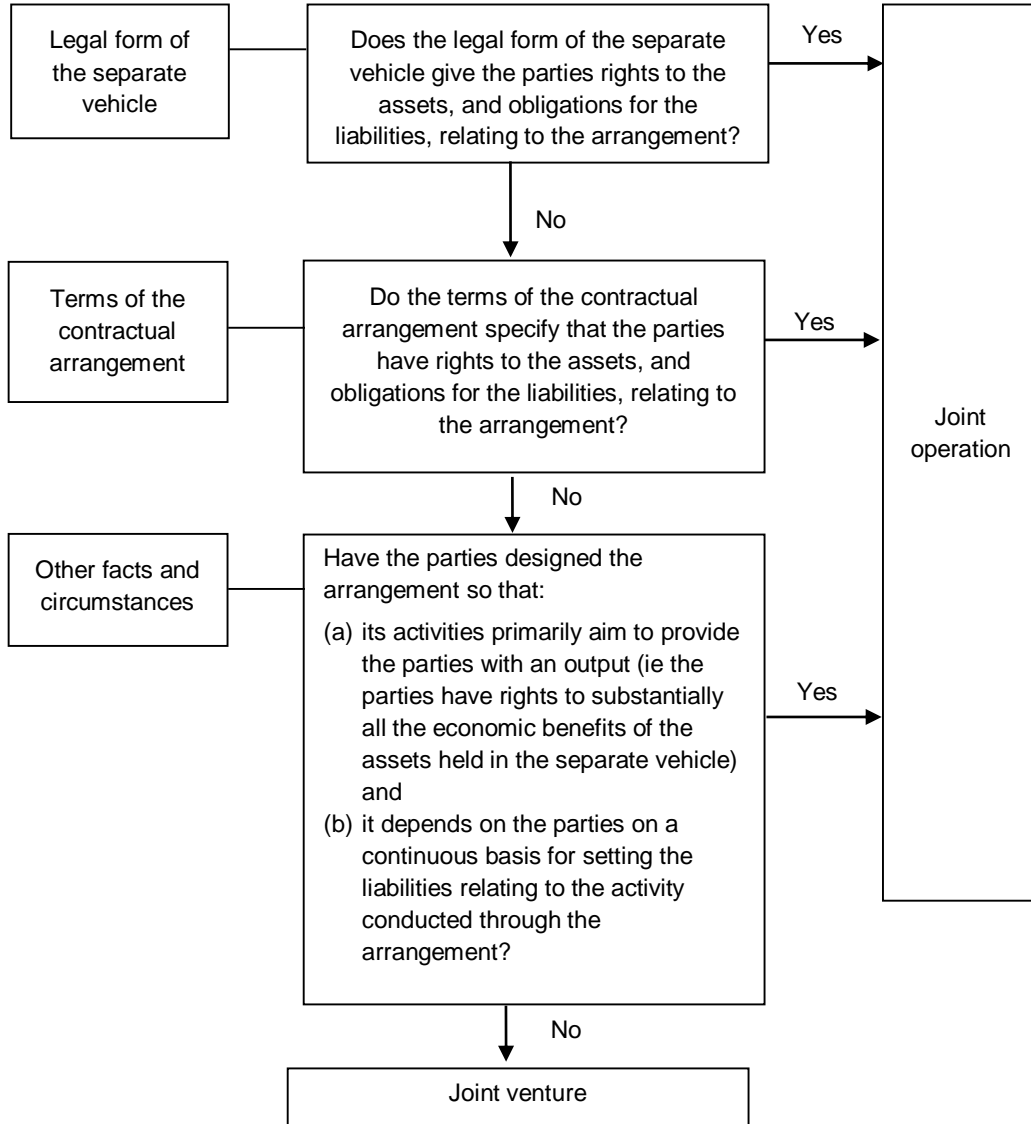
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties 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 in these circumstances would not change if, instead of the parties using their share of the output themselves in a subsequent manufacturing process, the parties sold their share of the output to third parties.

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

B33 The following flow chart reflects the assessment an entity follows to classify an arrangement when the joint arrangement is structured through a separate vehicle:

Classification of a joint arrangement structured through a separate vehicle



Financial statements of parties to a joint arrangement (paragraphs 21A – 22)

Accounting for acquisitions of interests in joint operations

- B33A When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3, it shall apply, to the extent of its share in accordance with paragraph 20, all of the principles on business combinations accounting in HKFRS 3, and other HKFRSs, that do not conflict with the guidance in this HKFRS and disclose the information required by those HKFRSs in relation to business combinations. The principles on business combinations accounting that do not conflict with the guidance in this HKFRS include but are not limited to:
- (a) measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in HKFRS 3 and other HKFRSs;
 - (b) recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognised in accordance with HKAS 32 *Financial Instruments: Presentation* and HKFRS 9;¹
 - (c) recognising deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets or liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill, as required by HKFRS 3 and HKAS 12 *Income Taxes* for business combinations;
 - (d) recognising the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and
 - (e) testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by HKAS 36 *Impairment of Assets* for goodwill acquired in a business combination.
- B33B Paragraphs 21A and B33A also apply to the formation of a joint operation if, and only if, an existing business, as defined in HKFRS 3, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute businesses to the joint operation on its formation.
- B33C A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in HKFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.
- B33CA A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in HKFRS 3. In such cases, previously held interests in the joint operation are not remeasured.

¹ If an entity applies these amendments but does not yet apply HKFRS 9, the reference in these amendments to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

- B33D Paragraphs 21A and B33A–B33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Accounting for sales or contributions of assets to a joint operation

- B34 When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- B35 When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator.

Accounting for purchases of assets from a joint operation

- B36 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.
- B37 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.

Appendix C

Effective date, transition and withdrawal of other HKFRSs

This appendix is an integral part of the HKFRS and has the same authority as the other parts of the HKFRS.

Effective date

- C1 An entity shall apply this HKFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this HKFRS earlier, it shall disclose that fact and apply HKFRS 10, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time.
- C1A *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12), issued in July 2012, amended paragraphs C2–C5, C7–C10 and C12 and added paragraphs C1B and C12A–C12B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 11 for an earlier period, it shall apply those amendments for that earlier period.
- C1AA *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to HKFRS 11), issued in June 2014, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D and C14A and their related headings. An entity shall apply those amendments prospectively in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments in an earlier period it shall disclose that fact.
- C1AB *Annual Improvements to HKFRS Standards 2015–2017 Cycle*, issued in February 2018, added paragraph B33CA. An entity shall apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Transition

- C1B Notwithstanding the requirements of paragraph 28 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when this HKFRS is first applied, an entity need only present the quantitative information required by paragraph 28(f) of HKAS 8 for the annual period immediately preceding the first annual period for which HKFRS 11 is applied (the ‘immediately preceding period’). An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Joint ventures—transition from proportionate consolidation to the equity method

- C2 When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. 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.

- C3 The opening balance of the investment determined in accordance with paragraph C2 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 40–43 of HKAS 28 (as amended in 2011) to the opening balance of the investment to assess whether the investment is impaired and shall recognise any impairment loss as an adjustment to retained earnings at the beginning of the immediately preceding period. The initial recognition exception in paragraphs 15 and 24 of HKAS 12 *Income Taxes* does not apply when the entity recognises an investment in a joint venture resulting from applying the transition requirements for joint ventures that had previously been proportionately consolidated.
- C4 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust retained earnings at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognised share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this HKFRS is first applied.
- C5 An entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the immediately preceding period. That disclosure shall be prepared in an aggregated manner for all joint ventures for which an entity applies the transition requirements referred to in paragraphs C2–C6.
- C6 After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with HKAS 28 (as amended in 2011).

Joint operations—transition from the equity method to accounting for assets and liabilities

- C7 When changing from the equity method to accounting for assets and liabilities in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of HKAS 28 (as amended in 2011) and recognise its 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.
- C8 An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the contractual arrangement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method.
- C9 Any difference arising from the investment previously accounted for using the equity method together with any other items that formed part of the entity's net investment in the arrangement in accordance with paragraph 38 of HKAS 28 (as amended in 2011), and the net amount of the assets and liabilities, including any goodwill, recognised shall be:
- (a) offset against any goodwill relating to the investment with any remaining difference adjusted against retained earnings at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and any other items that formed part of the entity's net investment) derecognised.

- (b) adjusted against retained earnings at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and any other items that formed part of the entity's net investment) derecognised.
- C10 An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the immediately preceding period.
- C11 The initial recognition exception in paragraphs 15 and 24 of HKAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation.

Transition provisions in an entity's separate financial statements

- C12 An entity that, in accordance with paragraph 10 of HKAS 27, was previously accounting in its separate financial statements for its interest in a joint operation as an investment at cost or in accordance with HKFRS 9 shall:
- (a) derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs C7–C9.
- (b) provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in retained earnings, at the beginning of the immediately preceding period.
- C13 The initial recognition exception in paragraphs 15 and 24 of HKAS 12 does not apply when the entity recognises assets and liabilities relating to its interest in a joint operation in its separate financial statements resulting from applying the transition requirements for joint operations referred to in paragraph C12.

References to the 'immediately preceding period'

- C13A Notwithstanding the references to the 'immediately preceding period' in paragraphs C2–C12, an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, all references to the 'immediately preceding period' in paragraphs C2–C12 shall be read as the 'earliest adjusted comparative period presented'.
- C13B If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been prepared on a different basis, and explain that basis.

References to HKFRS 9

- C14 If an entity applies this HKFRS but does not yet apply HKFRS 9, any reference to HKFRS 9 shall be read as a reference to HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting for acquisitions of interests in joint operations

- C14A *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to HKFRS 11), issued in June 2014, amended the heading after paragraph B33 and added paragraphs 21A, B33A–B33D, C1AA and their related headings. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in HKFRS 3, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognised for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Withdrawal of other HKFRSs

- C15 This HKFRS supersedes the following HKFRSs:
- (a) HKAS 31 *Interests in Joint Ventures*; and
 - (b) HK(SIC)-Int 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

Appendix D

Amendments to other HKFRSs

This appendix sets out amendments to other HKFRSs that are a consequence of issuing HKFRS 11. An entity shall apply the amendments for annual periods beginning on or after 1 January 2013. If an entity applies HKFRS 11 for an earlier period, it shall apply the amendments for that earlier period. Amended paragraphs are shown with new text underlined and deleted text struck through.

The amendments contained in this appendix when this HKFRS was issued in 2011 have been incorporated into the relevant HKFRSs.

*Basis for Conclusions on
Hong Kong Financial Reporting Standard 11*

Joint Arrangements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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BASIS FOR CONCLUSIONS ON IFRS 11 *JOINT ARRANGEMENTS*

HKFRS 11 is based on IFRS 11 *Joint Arrangement*. In approving HKFRS 11, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the IASB's Basis for Conclusions on IFRS 11. Accordingly, there are no significant differences between HKFRS 11 and IFRS 11. The IASB's Basis for Conclusions is reproduced below. The paragraph numbers of IFRS 11 referred to below generally correspond with those in HKFRS 11.

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Basis for Conclusions on IFRS 11 *Joint Arrangements*

This Basis for Conclusions accompanies, but is not part of, IFRS 11.

Introduction

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in IFRS 11 *Joint Arrangements*. Individual Board members gave greater weight to some factors than to others.
- BC2 The Board added the joint ventures project to its agenda as part of the project to reduce differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP). The requirements of IFRS 11 were not deliberated by the US Financial Accounting Standards Board (FASB).
- BC3 The Board focused its deliberations on enhancing the faithful representation of joint arrangements that an entity provides in its financial statements, by establishing a principle-based approach to accounting for joint arrangements, and by requiring enhanced disclosures. Even though the Board focused its efforts on improving the reporting of joint arrangements, the result is that the requirements of the IFRS achieve closer convergence with US GAAP than did IAS 31 *Interests in Joint Ventures*, which IFRS 11 supersedes.

Objective

- BC4 IFRS 11 sets out requirements for the recognition and measurement of an entity's interest in joint arrangements. The requirements for the disclosure of an entity's interest in joint arrangements have been included in IFRS 12 *Disclosure of Interests in Other Entities* (see paragraphs BC52–BC55). IFRS 11 is concerned principally with addressing two aspects of IAS 31 that the Board regarded as impediments to high quality reporting of joint arrangements: first, that the structure of the arrangement was the only determinant of the accounting, and second, that an entity had a choice of accounting treatment for interests in jointly controlled entities.
- BC5 The Board did not reconsider all the requirements in IAS 31. For example, the Board did not reconsider the equity method. Accordingly, this Basis for Conclusions does not discuss requirements of IAS 31 that the Board did not reconsider.
- BC6 The Board published its proposals in an exposure draft, ED 9 *Joint Arrangements*, in September 2007 with a comment deadline of 11 January 2008. The Board received over 110 comment letters on the exposure draft.

The problems with IAS 31

- BC7 IAS 31 established different accounting requirements depending on whether the arrangements were structured through an entity. Jointly controlled operations and jointly controlled assets were arrangements that did not require the establishment of an entity or financial structure that is separate from the parties. IAS 31 required parties to these arrangements to recognise assets, liabilities, revenues and expenses arising from the arrangements. When arrangements were structured through an entity, IAS 31 classified them as jointly controlled entities. Parties with interests in jointly controlled entities accounted for them using proportionate consolidation or, as an alternative, the equity method.
- BC8 The problem with basing different accounting requirements solely on the existence of an entity, combined with the choice of accounting treatment for jointly controlled entities, was that some arrangements that gave the parties similar rights and obligations were accounted for differently and, conversely, arrangements that gave the parties different rights and obligations were accounted for similarly. The Board's policy is to exclude options in accounting treatment from accounting standards whenever possible. Such options can lead to similar transactions being accounted for in different ways and, therefore, can impair comparability.

Improving IAS 31 with the principles of IFRS 11

- BC9 In the Board's view, the accounting for joint arrangements should reflect the rights and obligations that the parties have as a result of their interests in the arrangements, regardless of those arrangements' structure or legal form. This is the principle that IFRS 11 establishes for parties to a joint arrangement when accounting for their interests in the arrangements. However, the Board acknowledges that sometimes the structure or the legal form of the joint arrangements is decisive in determining the parties' rights and obligations arising from the arrangements and, consequently, in determining the classification of the joint arrangements (see paragraphs BC26 and BC31).
- BC10 Entities applying IAS 31 were required to choose the same accounting treatment (ie proportionate consolidation or equity method) when accounting for all of their interests in jointly controlled entities. Applying the same accounting treatment to all the interests that an entity has in different jointly controlled entities might not always lead to the faithful representation of each of those interests. For example, an entity whose policy was to account for all of its interests in jointly controlled entities using proportionate consolidation might have recognised assets and liabilities proportionately even though this did not faithfully represent the entity's rights and obligations in the assets and liabilities of particular joint arrangements. Conversely, an entity might have accounted for all of its interests in jointly controlled entities using the equity method, when the recognition of the entity's rights and obligations in particular joint arrangements would instead have led to the recognition of assets and liabilities.
- BC11 The accounting for joint arrangements required by the IFRS is not a function of an entity's accounting policy choice but is, instead, determined by an entity applying the principles of the IFRS to each of its joint arrangements and recognising, as a result, the rights and obligations arising from each of them. The Board concluded that proportionate consolidation is not an appropriate method to account for interests in joint arrangements when the parties have neither rights to the assets, nor obligations for the liabilities, relating to the arrangement. The Board also concluded that the equity method is not an appropriate method to account for interests in joint arrangements when parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Board believes that it is misleading for users of financial statements if an entity recognises assets and liabilities for which it does not have rights or obligations, or does not recognise assets and liabilities for which it does have rights and obligations.
- BC12 The Board also reconsidered the disclosure requirements in IAS 31 for interests in joint arrangements. The Board believes that the disclosure requirements in IFRS 12 will enable users to gain a better understanding of the nature and extent of an entity's operations undertaken through joint arrangements.

Scope

- BC13 The IFRS should be applied by all entities that are a party to a joint arrangement. The IFRS does not change the two essential characteristics that IAS 31 required arrangements to have in order to be deemed 'joint ventures', ie that a contractual arrangement that binds the parties to the arrangement exists, and that the contractual arrangement establishes that two or more of those parties have joint control of the arrangement.
- BC14 The Board believes that the new definition of control and the application requirements to assess control in IFRS 10 *Consolidated Financial Statements* will assist entities in determining whether an arrangement is controlled or jointly controlled, and in that respect it might cause entities to reconsider their previous assessment of their relationship with the investee. Despite the changes that these reassessments might cause, the Board believes that arrangements that were within the scope of IAS 31 would generally also be within the scope of IFRS 11.

Scope exception

- BC15 The Board reconsidered the scope exception of IAS 31 that had also been proposed in ED 9. The Board concluded that the scope exception in ED 9 for interests in joint ventures held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, that are measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*, is more appropriately characterised as a measurement exemption, not as a scope exception.
- BC16 The Board observed that when venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, conclude that they have an interest in a joint arrangement, this is because the arrangement has the characteristics of a joint arrangement as specified in IFRS 11 (ie a contractual arrangement exists that establishes that two or more parties have joint control of the arrangement).
- BC17 The Board also observed that the scope exception in ED 9 did not relate to the fact that these arrangements do not have the characteristics of joint arrangements, but to the fact that for investments held by venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, fair value measurement provides more useful information for users of the financial statements than would application of the equity method.
- BC18 Accordingly, the Board decided to maintain the option that permits such entities to measure their interests in joint ventures at fair value through profit or loss in accordance with IFRS 9, but clarified that this is an exemption from the requirement to measure interests in joint ventures using the equity method, rather than an exception to the scope of IFRS 11 for joint ventures in which these entities have interests.

Joint arrangements

- BC19 The Board decided to use the term 'joint arrangement', rather than 'joint venture', to describe arrangements that are subject to the requirements of the IFRS. As noted in paragraph BC13, the IFRS does not change the two essential characteristics that IAS 31 required for arrangements to be 'joint ventures': a contractual arrangement that binds the parties to the arrangement exists, and the contractual arrangement establishes that two or more of those parties have joint control of the arrangement.

Joint control

- BC20 In ED 9, the proposed definition of 'joint arrangement' required 'shared decision-making' by all the parties to the arrangement. Some respondents questioned how 'shared decision-making' was intended to operate and how it differed from 'joint control'. The Board introduced the term 'shared decision-making' in the exposure draft instead of 'joint control' because control was defined in IAS 27 *Consolidated and*

Separate Financial Statements in the context of having power over the financial and operating policies of an entity.¹ During its redeliberation of ED 9, the Board concluded that in joint arrangements, it is the activity undertaken by the parties that is the matter over which the parties share control or share decision-making, regardless of whether the activity is conducted in a separate entity. Consequently, the Board concluded that 'joint control' is a term that expresses better than 'shared decision-making' that the control of the activity that is the subject matter of the arrangement is shared among the parties with joint control of the arrangement.

- BC21 The Board did not reconsider the concept of 'joint control' as defined in IAS 31 or in ED 9 (ie the requirement of unanimous consent for the decisions that give the parties control of an arrangement). However, the definition of 'joint control' in the IFRS is different from those in IAS 31 and ED 9. The reason for the change is to align the definition of 'joint control' with the definition of 'control' in IFRS 10. IFRS 11 directs parties to an arrangement to assess first whether all the parties, or a group of the parties, control the arrangement collectively, on the basis of the definition of control and corresponding guidance in IFRS 10. Once an entity has concluded that the arrangement is collectively controlled by all the parties, or by a group of the parties, joint control exists only when decisions about the activities that significantly affect the returns of the arrangement (ie the relevant activities) require the unanimous consent of those parties.
- BC22 In response to concerns expressed by some respondents who pointed out that, unlike IAS 31, ED 9 did not include the term 'investors in a joint arrangement', the Board clarified during its redeliberation of ED 9 that not all the parties to a joint arrangement need to have joint control for the arrangement to be a joint arrangement. Indeed, some of the parties to a joint arrangement can have joint control whereas others, although able to participate, do not have joint control of the arrangement. The Board decided to use the terms 'joint operators' to designate parties with joint control of a 'joint operation' and 'joint venturers' to designate parties with joint control of a 'joint venture' (see paragraph BC24).
- BC23 The Board observed that the parties to a joint arrangement might agree to change or modify the governance and decision-making process of the arrangement at any time. As a result of such a change, a party might gain or lose joint control of the arrangement. Consequently, the Board concluded that if facts and circumstances change, the parties to a joint arrangement should reassess whether they are parties with joint control of the arrangement.

Types of joint arrangement

- BC24 The IFRS classifies joint arrangements into two types—'joint operations' and 'joint ventures'. Parties with joint control of a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement ('joint operators'), whereas parties with joint control of a joint venture ('joint venturers') have rights to the net assets of the arrangement.

¹ The consolidation requirements in IAS 27 were replaced by IFRS 10 *Consolidated Financial Statements* issued in 2011 and the definition of control was revised.

- BC25 The classification of joint arrangements into two types was considered by the Board in its redeliberation of the exposure draft. ED 9 proposed to classify joint arrangements into three types—'joint operations', 'joint assets' and 'joint ventures'. The Board observed that in some instances it might be difficult to assess whether an arrangement is a 'joint operation' or a 'joint asset'. This is because elements from both types of joint arrangement are sometimes present (in many arrangements joint assets are also jointly operated, and therefore such arrangements could be viewed as a 'joint asset' or as a 'joint operation'). Additionally, both types of joint arrangement result in the same accounting outcome (ie recognition of assets and liabilities and corresponding revenues and expenses). For these reasons, the Board decided to merge 'joint operations' and 'joint assets' into a single type of joint arrangement called 'joint operation'. This decision simplifies the IFRS by aligning the two types of joint arrangement presented by the IFRS (ie 'joint operations' and 'joint ventures') with the two possible accounting outcomes (ie recognition of assets, liabilities, revenues and expenses, or recognition of an investment accounted for using the equity method).
- BC26 The Board observed that when the parties do not structure their joint arrangement through a separate vehicle (ie arrangements that were formerly 'jointly controlled operations' and 'jointly controlled assets' in IAS 31), the parties determine in the contractual arrangements their rights to the assets, and their obligations for the liabilities, relating to the arrangement. Such arrangements are joint operations.
- BC27 In reaching this conclusion, the Board acknowledged the possibility that parties to a joint arrangement that is not structured through a separate vehicle might establish terms in the contractual arrangement under which the parties have rights only to the net assets of the arrangement. The Board thought that this possibility was likely to be rare and that the benefits of introducing an additional assessment in the classification of joint arrangements when these are not structured through separate vehicles would not outweigh the costs of increasing the complexity of the IFRS. This is because in the vast majority of cases, accounting for joint arrangements that are not structured through separate vehicles on a gross basis leads to the faithful representation of the parties' rights and obligations arising from those arrangements.
- BC28 The Board acknowledged that classifying jointly controlled entities in IAS 31 into joint operations or joint ventures in the IFRS requires an entity to assess its rights and obligations arising from these arrangements, which will require the entity to exercise judgement.
- BC29 The Board considered whether the definition of a 'business', as defined in IFRS 3 *Business Combinations*, would be helpful in distinguishing between a joint venture and a joint operation. Because a 'business' can be found in all types of joint arrangement, the Board decided not to pursue this approach.
- BC30 The Board also concluded that there should not be a rebuttable presumption that the arrangement is a joint venture when it has been structured through a separate vehicle. The Board decided that parties to a joint arrangement that is structured through a separate vehicle should assess the classification of the arrangement by taking into consideration all facts and circumstances. The Board noted that an entity should take into consideration the legal form of the separate vehicle, the terms agreed in the contractual arrangement and, when relevant, any other facts and circumstances.

- BC31 In taking this approach, the Board observed that the legal form of the separate vehicle in which the joint arrangement is structured provides an initial indicator of the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement. The exception is when the legal form of the separate vehicle does not confer separation between the parties and the vehicle. In such a case, the Board concluded that the assessment of the rights and obligations conferred upon the parties by the legal form of that separate vehicle would be sufficient to conclude that the arrangement is a joint operation.
- BC32 The Board believes that the selection of a particular legal form is in many cases driven by the intended economic substance that the particular legal form delivers. However, the Board observed that in some cases the choice of a particular legal form responds to tax, regulatory requirements or other reasons that can alter the intended economic substance initially sought by the parties to the arrangement. In those instances, the parties might use their contractual arrangements to modify the effects that the legal form of the arrangement would otherwise have on their rights and obligations.
- BC33 The Board noted that other facts and circumstances might also affect the rights and obligations of the parties to a joint arrangement and, ultimately, affect the classification of the arrangement. Therefore, the parties should recognise the assets and liabilities relating to an arrangement if the parties designed the arrangement so that its activities primarily aimed to provide the parties with an output (ie the parties are entitled to substantially all the economic benefits of the assets relating to the arrangement) and they are, as a result of the design of the arrangement, obliged to settle the liabilities relating to the arrangement.
- BC34 The IFRS defines 'joint ventures' as arrangements whereby the parties that have joint control of the arrangement (ie the joint venturers) have rights to the net assets of the arrangement. The Board observed that the term 'net assets' in the definition of joint ventures aimed to portray that the joint venturers have rights to an investment in the arrangement. However, such a definition (ie 'rights to the net assets of the arrangement') would not prevent a joint venturer from having a net liability position arising from its involvement in the joint venture. This could happen, for example, if the joint venture had incurred losses that had reduced the joint venturer's investment to zero, and as a result of the joint venturer having provided a guarantee to cover any losses that the joint venture might incur, the joint venturer has an obligation for those losses. The Board observed that neither the provision of the guarantee by the joint venturer, nor the liability assumed by the joint venturer as a result of the joint venture incurring losses, determines that the arrangement is a joint operation.
- BC35 Many respondents to ED 9 were concerned that joint ventures could be merely 'residuals'. This is because these respondents interpreted joint ventures to mean that after parties had identified rights to individual assets or obligations for expenses or financing, joint ventures would be merely any remaining assets and liabilities of the arrangement. As a result of these concerns, the Board clarified that the unit of account of a joint arrangement is the activity that two or more parties have agreed to control jointly, and that a party should assess its rights to the assets, and obligations for the liabilities, relating to that activity. Consequently, the term 'joint venture' refers to a jointly controlled activity in which the parties have an investment.
- BC36 During its redeliberation of ED 9, the Board made it clear that different joint arrangements or different types of joint arrangement can be established beneath the umbrella of a single arrangement or framework agreement to deal with, for example, different activities that are interrelated. The Board also observed the possibility that within the same separate vehicle the parties may undertake different activities in which they have different rights to the assets, and obligations for the liabilities, relating to these different activities resulting in different types of joint arrangement conducted within the same separate vehicle. However, the Board acknowledged that even though this situation is conceptually possible, it would be rare in practice.
- BC37 The Board observed that the rights and obligations of parties to joint arrangements might change over time. This might happen, for example, as a result of a change in the purpose of the arrangement that might trigger a reconsideration of the terms of the

contractual arrangements. Consequently, the Board concluded that the assessment of the type of joint arrangement needs to be a continuous process, to the extent that facts and circumstances change.

Financial statements of parties to a joint arrangement

Joint operation

- BC38 In relation to the accounting for a party's interest in a joint operation, some respondents to ED 9 enquired how proportionate consolidation differed from the recognition of (or recognition of shares of) assets, liabilities, revenues and expenses arising from a joint operation. The Board noted that there are two main differences between recognising assets, liabilities, revenues and expenses relating to the activity of the joint operation and proportionate consolidation. The first difference relates to the fact that the rights and obligations, as specified in the contractual arrangement, that an entity has with respect to the assets, liabilities, revenues and expenses relating to a joint operation might differ from its ownership interest in the joint operation. The IFRS requires an entity with an interest in a joint operation to recognise assets, liabilities, revenues and expenses according to the entity's shares in the assets, liabilities, revenues and expenses of the joint operation as determined and specified in the contractual arrangement, rather than basing the recognition of assets, liabilities, revenues and expenses on the ownership interest that the entity has in the joint operation. The second difference from proportionate consolidation is that the parties' interests in a joint operation are recognised in their separate financial statements. Consequently, there is no difference in what is recognised in the parties' separate financial statements and the parties' consolidated financial statements or the parties' financial statements in which investments are accounted for using the equity method.
- BC39 Respondents also suggested that the IFRS should provide more clarity in stating the requirements for the accounting for shares of assets in joint operations. Many respondents to ED 9 were not clear whether parties to a joint operation that had rights to the assets should recognise a 'right to use' or a 'right to a share' or whether they should instead directly recognise 'their share of the joint assets, classified according to the nature of the asset'. The concern raised by this uncertainty was the different accounting implications of these interpretations—ie accounting for rights or accounting for shares of assets. The Board concluded that a party to a joint operation should recognise its assets or its share of any assets in accordance with the IFRSs applicable to the particular assets.
- BC40 An additional concern raised by some respondents to ED 9 was how the unit of account relating to the share of assets and liabilities to be accounted for by the parties to a joint operation should be delineated. The Board observed that ED 9 had not been intended to change this aspect of IAS 31, where the 'share' is determined in accordance with the contractual arrangement. The Board concluded that the contractual arrangement generally delineates the 'share' or 'part' not only of the assets or liabilities of the parties to joint operations, but also of their 'share' of any revenues and expenses arising from the joint operation.

Joint venture

- BC41 In relation to the accounting for interests in joint ventures, the Board decided that entities should recognise their interests using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as stated in that standard. In reaching that conclusion, the Board considered the views of some respondents to ED 9 who pointed out that joint control and significant influence are different. Proponents of this view argue that it is not appropriate to account for an associate and a joint venture in the same way using the equity method. Although the Board acknowledged that significant influence and joint control are different, the Board concluded that, except for specific circumstances that are addressed in IAS 28 (as amended in 2011), the equity method is the most appropriate method to account for joint ventures because it is a method that

accounts for an entity's interest in the net assets of an investee. Reconsideration of the equity method was outside the scope of the joint ventures project.

- BC42 Other respondents expressed concerns about the elimination of proportionate consolidation. Those respondents believe that proportionate consolidation more faithfully represents the economic substance of the arrangements, and better meets the information needs of users of financial statements. The Board acknowledged these concerns, but observed that the approach in the IFRS is consistent with its view of what constitutes the economic substance of an entity's interests in joint arrangements, a view that it concedes may differ from that of those respondents. This seems inevitable given that, the evidence suggests that in accounting for interests in jointly controlled entities approximately half of the entities applying IFRSs use proportionate consolidation and half use the equity method. The variation in practice, which is facilitated by the option in IAS 31, is a prime motivation for developing IFRS 11 (see paragraphs BC7 and BC8). That variation will, inevitably, be a source of disagreement.
- BC43 The Board believes that the accounting for joint arrangements should faithfully reflect the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement. In that respect, the Board observes that the activities that are the subject of different joint arrangements might be operationally very similar, but that the contractual terms agreed by the parties to these joint arrangements might confer on the parties very different rights to the assets, and obligations for the liabilities, relating to such activities. Consequently, the Board believes that the economic substance of the arrangements does not depend exclusively on whether the activities undertaken through joint arrangements are closely related to the activities undertaken by the parties on their own, or on whether the parties are closely involved in the operations of the arrangements. Instead, the economic substance of the arrangements depends on the rights and obligations assumed by the parties when carrying out such activities. It is those rights and obligations that the accounting for joint arrangements should reflect.
- BC44 The Board observes that the IFRS requires parties to account for assets and liabilities when the contractual arrangement specifies that they have rights to the assets and obligations for the liabilities. The Board believes that accounting for joint arrangements that is based on the principles of the IFRS will contribute not only to improving the faithful representation of an entity's interests in joint arrangements, but also to enhancing comparability. This is because arrangements in which the parties have rights to the assets and obligations for the liabilities will require the same accounting treatment. In the same way, arrangements in which the parties have rights to the net assets of the arrangement will also require the same accounting treatment.
- BC45 The Board does not believe that the elimination of proportionate consolidation will cause a loss of information for users of financial statements. This is because the disclosure requirements in IFRS 12, when compared with IAS 31, will improve the quality of the information provided to users relating to an entity's interest in joint ventures. The disclosure requirements in IFRS 12 will provide users with information about individual joint ventures when those joint ventures are material to the reporting entity. In addition, the Board notes that the summarised financial information required in IFRS 12 results in a higher degree of detail than did IAS 31, which gives users a better basis for assessing the effect on the reporting entity of the activities carried out through joint ventures.

Accounting for acquisitions of interests in joint operations

BC45A The IFRS Interpretations Committee (the Interpretations Committee) reported to the IASB that practice differed in accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets, as specified in IAS 31.² In particular, the Interpretations Committee noted diversity in practice if the activity of the jointly controlled operations or jointly controlled assets constitutes a business, as defined in IFRS 3.

BC45B The principal approaches observed in practice were:

- (a) **IFRS 3 approach:** some preparers of IFRS financial statements, when accounting for the acquisition of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business, applied IFRS 3 and the guidance on business combinations in other IFRSs. Identifiable assets and liabilities were measured, subject to the exceptions in IFRS 3, at fair value and the residual was recognised as goodwill. Furthermore, transaction costs were not capitalised and deferred taxes were recognised on initial recognition of assets and liabilities. Only guidance on business combinations in IFRS 3 and other IFRSs that was not appropriate for the acquisition of an interest in jointly controlled operations or jointly controlled assets was not applied, for example, the guidance on non-controlling interests.
- (b) **cost approach:** others allocated the total cost of acquiring the interest in the joint operation to the individual identifiable assets on the basis of their relative fair values. Accordingly, any premium paid was allocated to the identifiable assets rather than being recognised as goodwill. Transaction costs were capitalised and deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12 *Income Taxes*.
- (c) **hybrid approach:** a third group of preparers of IFRS financial statements only applied the principles on business combinations accounting in IFRS 3 and other IFRSs to issues that were not addressed elsewhere in IFRS. Identifiable assets and liabilities were measured at fair value, with exceptions, and the residual was recognised as a separate asset, ie goodwill. Transaction costs, however, were capitalised and contingent liabilities and deferred taxes were not recognised because these issues were considered as being addressed elsewhere in IFRS. Deferred taxes were not recognised, because of the initial recognition exceptions in paragraphs 15 and 24 of IAS 12.

BC45C The different approaches have led to different accounting outcomes, in particular:

- (a) in accounting for premiums paid in excess of the value of the identifiable net assets;
- (b) in capitalising or expensing acquisition-related costs; and
- (c) in accounting for deferred tax assets and deferred tax liabilities that arise from the initial recognition of assets and liabilities.

² IFRS 11 *Joint Arrangements* shall be applied for annual periods beginning on or after 1 January 2013. It replaces IAS 31 *Interests in Joint Ventures*.

- BC45D The IASB noted that the diversity in practice resulted from the fact that IAS 31 did not give specific guidance on the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets, the activity of which constitutes a business, as defined in IFRS 3. The IASB was concerned that this diversity in practice may continue in the accounting for acquisitions of interests in joint operations, as defined in IFRS 11, when the activities of those joint operations constitute businesses. Arrangements that were formerly 'jointly controlled operations' and 'jointly controlled assets' in IAS 31 are joint operations in IFRS 11 (see paragraph BC26). As was the case in IAS 31, a joint operator recognises its (share in the) assets, liabilities, revenue and expenses relating to such arrangements.
- BC45E The IASB considered the guidance in current IFRS on the acquisition of an interest in a business. The IASB recognised that the acquisition of an interest in a joint operation does not meet the definition of a business combination in IFRS 3. Nonetheless, the IASB concluded that the most appropriate approach to account for an acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, is to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS.
- BC45F The IASB reached this conclusion because:
- (a) it considers that separate recognition of goodwill, when present, is preferable to allocating premiums to identifiable assets acquired on the basis of relative fair values;
 - (b) it thinks that an approach that limits the application of business combinations accounting only to issues that are not addressed elsewhere in IFRS lacks a strong conceptual basis; and
 - (c) the guidance in IFRS 3 and other IFRSs on business combinations give a comprehensive and consistent set of accounting principles for the different components of such complex transactions as acquisitions of interests in businesses.
- BC45G The IASB also concluded that an entity that is acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, shall disclose the relevant information that is specified in IFRS 3 and other IFRSs on business combinations. This is because these requirements are an integral part of the financial reporting about the acquisition of interests in businesses.
- BC45H Consequently, the IASB amended IFRS 11 to address the accounting for both the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, and the related disclosure requirements, as a means to resolve the diversity in practice.
- BC45I The IASB noted that the fact patterns raised with the Interpretations Committee were limited to circumstances involving a business, as defined in IFRS 3. The IASB noted that IFRS already provides guidance for the acquisition of an interest in an asset or a group of assets that is not a business, as defined in IFRS 3. Consequently, the amendments apply only when an entity acquires an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, either on formation of that joint operation or when acquiring an interest in an existing joint operation.

- BC45J The Exposure Draft *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11), which was published in December 2012, used the term ‘relevant principles on business combinations accounting in IFRS 3 and other IFRSs’ to describe the principles that have to be applied in accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business. In analysing the comment letters on the Exposure Draft, the IASB noted divergent understanding of what the ‘relevant principles on business combinations accounting in IFRS 3 and other IFRSs’ are, within the context of the proposed amendment.
- BC45K In order to avoid diversity in practice from the application of the term ‘relevant principles on business combinations accounting in IFRS 3 and other IFRSs’, the IASB decided to replace this term with ‘all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS’. In addition, to aid understanding the application guidance includes a non-exhaustive list of five principles related to business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the principles in this IFRS. Four of them relate to the areas in which the Interpretations Committee observed different accounting outcomes from the application of different approaches to the accounting for acquisitions of interests in jointly controlled operations or jointly controlled assets in which the activity constitutes a business (see paragraphs BC45B–BC45C).
- BC45L The IASB also noted that the reference to ‘all of the principles on business combinations accounting in IFRS 3 and other IFRSs’ is ambiguous for acquisitions of additional interests in joint operations that result in the joint operator retaining joint control of the joint operation. It might be understood as a reference to either:
- (a) paragraph 42 of IFRS 3 with the result of remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control; or
 - (b) paragraph 23 of IFRS 10 with the result of not remeasuring a previously held interest in a joint operation on the acquisition of an additional interest while retaining joint control.
- BC45M In order to resolve this ambiguity, the IASB decided to clarify that previously held interests in a joint operation are not remeasured if the joint operator retains joint control. Paragraph 23 of IFRS 10 addresses the accounting for the acquisition of an additional interest in a business that is already controlled by the acquirer. This is the analogous transaction to the acquisition of an interest in a business that is already jointly controlled by the acquirer and will continue to be jointly controlled by it. Paragraph 42 of IFRS 3 instead addresses the acquisition of an interest that results in the acquirer obtaining control over the business. This is the analogous transaction to the acquisition of an interest in a business that results in the acquirer obtaining joint control of the business.
- BC45N The IASB decided to add a scope exclusion for joint operations under common control to the amendments to IFRS 11. The IASB concluded that the amendments to IFRS 11 should not require the application of all of the principles on business combinations accounting for transactions that would be outside the scope of IFRS 3 if control, rather than joint control, would be obtained or retained by the acquirer.

Previously held interest in a joint operation (amendments issued in December 2017)

- BC45O The Board was informed that entities, on obtaining joint control of a business that is a joint operation, accounted for their previously held interest in the joint operation differently. In particular, there were different views on whether an entity applied the principles for accounting for a business combination achieved in stages to its previously held interest when it obtained joint control.
- BC45P The Board observed that although such a transaction changes the nature of an entity's interest in a joint operation, it does not result in a change in the group boundaries. In this respect, the transaction is similar to an investment in an associate becoming an investment in a joint venture and vice versa. The Board noted that paragraph 24 of IAS 28 prohibits an entity from remeasuring its previously held interest in those circumstances. The Board also observed that remeasuring a previously held interest in a joint operation could conflict with the requirement in IFRS 11 for an entity to account for its assets and liabilities relating to its interest in a joint operation applying the applicable IFRSs.
- BC45Q Consequently, the Board added paragraph B33CA to clarify that when an entity obtains joint control of a business that is a joint operation, it does not remeasure its previously held interests.

Transactions between an entity and a joint operation in which that entity is a joint operator and incorporation of SIC-13 into the IFRS

- BC46 In its redeliberation of ED 9, the Board noted that the exposure draft was silent on the accounting for transactions between an entity and a joint operation in which that entity is a joint operator. The Board observed that the IFRS did not aim to change the accounting procedures that entities applied when accounting for such transactions in accordance with IAS 31, but it did acknowledge that the IFRS should state what those requirements were.
- BC47 The Board also decided to include the requirements for the accounting for transactions entered into between a joint venturer and a joint venture, including the consensus of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*, in IAS 28 (as amended in 2011).

Reporting interests in joint arrangements in the financial statements of parties that participate in, but do not have joint control of, a joint arrangement

- BC48 The Board decided to clarify in the IFRS that an arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This was consistent with IAS 31, which defined an 'investor in a joint venture' as a party to a joint venture that does not have joint control of that joint venture. The Board noted, however, that relating the term 'investor' exclusively to parties with no joint control of the arrangement can be confusing because the parties with joint control of the arrangement are also investors in those arrangements. Accordingly, the Board modified the language in the IFRS to avoid that confusion. However, even though in its redeliberation of ED 9 the Board highlighted that the IFRS establishes recognition and measurement requirements for the parties with joint control of a joint arrangement, the Board decided to address the accounting requirements for parties that participate in, but do not have joint control of, a joint arrangement, to reduce divergence in practice.

- BC49 In relation to parties that participate in, but do not have joint control of, a joint arrangement that is a joint operation, the Board focused its discussions on those parties for which the contractual arrangements specify that they have rights to the assets, and obligations for the liabilities, relating to the joint operation. The Board concluded that, even though those parties are not joint operators, they do have rights and obligations for the assets, liabilities, revenues and expenses relating to the joint operation, which they should recognise in accordance with the terms of the contractual arrangement.
- BC50 The Board considered that the requirements in IAS 31 for parties that participate in, but do not have joint control of, joint ventures were appropriate and therefore decided to carry them forward to the IFRS. Consequently, such a party should account for its investment in accordance with IFRS 9 or, if that party has significant influence over the joint venture, in accordance with IAS 28 (as amended in 2011).

Joint operation held for sale

- BC51 ED 9 was silent on how an entity should account for an interest in a joint operation that is classified as held for sale. The Board decided that a joint operator should account for an interest in a joint operation that is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Board also confirmed that the guidance in IFRS 5 for the classification of a disposal group as held for sale would apply to interests in joint operations held for sale.

Disclosure

- BC52 As part of its redeliberation of ED 9 and ED 10 *Consolidated Financial Statements*, the Board identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities, and to present those requirements in a single IFRS.
- BC53 The Board observed that IAS 27 (as revised in 2003), IAS 28 (as revised in 2003) and IAS 31 contained many similar disclosure requirements. ED 9 had already proposed amendments to the disclosure requirements for joint ventures and associates to align the disclosure requirements for those two types of investments more closely. The Board noted that the majority of respondents agreed with the proposals in ED 9 to align the disclosures for joint ventures with the disclosures in IAS 28 for associates.
- BC54 As a result, the Board combined the disclosure requirements for interest with subsidiaries, joint arrangements, associates and unconsolidated structured entities within a single comprehensive standard, IFRS 12.
- BC55 The Basis for Conclusions accompanying IFRS 12 summarises the Board's considerations in developing that IFRS, including its review of responses to the disclosure proposals in ED 9. Accordingly, IFRS 11 does not include disclosure requirements and this Basis for Conclusions does not incorporate the Board's considerations of responses to the proposed disclosure requirements in ED 9.

Effective date

- BC56 The Board decided to align the effective date for the IFRS with the effective date for IFRS 10, IFRS 12, IAS 27 *Separate Financial Statements* and IAS 28 (as amended in 2011). When making this decision, the Board noted that the five IFRSs all deal with the assessment of, and related accounting and disclosure requirements about, a reporting entity's special relationships with other entities (ie when the reporting entity has control or joint control of, or significant influence over, another entity). As a result, the Board concluded that applying IFRS 11 without also applying the other four IFRSs could cause unwarranted confusion.
- BC57 The Board usually sets an effective date of between twelve and eighteen months after issuing an IFRS. When deciding the effective date for those IFRSs, the Board considered the following factors:
- (a) the time that many countries require for translation and for introducing the mandatory requirements into law.
 - (b) the consolidation project was related to the global financial crisis that started in 2007 and was accelerated by the Board in response to urgent requests from the leaders of the G20, the Financial Stability Board, users of financial statements, regulators and others to improve the accounting and disclosure of an entity's 'off balance sheet' activities.
 - (c) the comments received from respondents to the Request for Views *Effective Date and Transition Methods* that was published in October 2010 regarding implementation costs, effective date and transition requirements of the IFRSs to be issued in 2011. Most respondents did not identify the consolidation and joint arrangements IFRSs as having a high impact in terms of the time and resources that their implementation would require. In addition, only a few respondents commented that the effective dates of those IFRSs should be aligned with those of the other IFRSs to be issued in 2011.
- BC58 With those factors in mind, the Board decided to require entities to apply the five IFRSs for annual periods beginning on or after 1 January 2013.
- BC59 Most respondents to the Request for Views supported early application of the IFRSs to be issued in 2011. Respondents stressed that early application was especially important for first-time adopters in 2011 and 2012. The Board was persuaded by these arguments and decided to permit early application of IFRS 11 but only if an entity applies it in conjunction with the other IFRSs (ie IFRS 10, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011)) to avoid a lack of comparability among financial statements, and for the reasons noted in paragraph BC56 that triggered the Board's decision to set the same effective date for all five IFRSs. Even though an entity should apply the five IFRSs at the same time, the Board noted that an entity should not be prevented from providing any information required by IFRS 12 early if by doing so users gained a better understanding of the entity's relationships with other entities.

Transition

- BC60 The exposure draft proposed retrospective application of the requirements. In its redeliberation of ED 9, the Board observed that entities affected by the changes introduced by the IFRS would have enough time to prepare to apply the new requirements retrospectively. The Board was informed of a few cases in which entities, on the basis of their analysis of the proposals in ED 9, had already changed their accounting for interests in joint arrangements retrospectively, taking advantage of the accounting option that IAS 31 offered to jointly controlled entities.

- BC61 However, in its discussions, the Board considered the views of some respondents to ED 9 who had expressed their concern about applying the requirements retrospectively, because of undue cost and effort. In response to these concerns, the Board decided that in the case of changing from proportionate consolidation to the equity method, an entity should not adjust retrospectively any differences between the accounting methods of proportionate consolidation and equity method, but should instead aggregate the carrying amounts of the assets and liabilities, including any goodwill arising from acquisition, that the entity had previously proportionately consolidated into a single line investment as at the beginning of the earliest period presented.
- BC62 The Board also decided that the opening balance of the investment should be tested for impairment in accordance with paragraphs 40–43 of IAS 28 (as amended in 2011), with any resulting impairment loss being adjusted against retained earnings at the beginning of the earliest period presented.
- BC63 The Board also considered the case when an arrangement that was previously proportionately consolidated has a negative net asset position on transition. In such a case, an entity should assess whether it has legal or constructive obligations in relation to those negative net assets. The Board concluded that if the entity does not have legal or constructive obligations in relation to the negative net assets, it should not recognise the corresponding liability but it should adjust retained earnings at the beginning of the earliest period presented. The entity should also be required to disclose this fact along with its cumulative unrecognised share of losses of the joint venture as at the beginning of the earliest period presented and at the date at which the IFRS is first applied.
- BC64 The Board also considered requiring disclosures to help users of financial statements to understand the consequences of the accounting change for those joint arrangements that would be changing from proportionate consolidation to the equity method. To address this need, the Board decided that an entity should disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment as at the beginning of the earliest period presented.
- BC65 The Board redeliberated the transition requirements for entities changing from the equity method to accounting for assets and liabilities in respect of their interest in a joint operation. The Board decided to require an entity to recognise each of the assets, including any goodwill arising from acquisition, and the liabilities relating to its interest in the joint operation at its carrying amount on the basis of the information used by the entity in applying the equity method, instead of requiring the entity to remeasure its share of each of those assets and liabilities at the date of transition. The Board did not believe that the costs of requiring entities to remeasure the assets and liabilities relating to the joint operation as a result of the accounting change would outweigh the benefits.

- BC66 The Board observed that changing from the equity method to accounting for assets and liabilities in respect of an entity's interest in a joint operation could result in the net amount of the assets and liabilities recognised being either higher or lower than the investment (and any other items that formed part of the entity's net investment in the arrangement) derecognised. In the first case, the Board noted that assets and liabilities recognised could be higher than the investment derecognised when the entity had previously impaired the carrying amount of the investment. The Board observed that, in accordance with IAS 28 (as amended in 2011), such an impairment loss would not have been allocated to any asset, including goodwill, that formed part of the carrying amount of the investment and that as a result, the net amount of the underlying assets and liabilities could be higher than the carrying amount of the investment. To address this, the Board concluded that in such a case, an entity should first adjust the difference against any goodwill related to the investment, with any remaining difference adjusted against retained earnings at the beginning of the earliest period presented. In the second case, the Board noted that the net amount of the assets and liabilities recognised could be lower than the investment derecognised when, for example, an entity applied the same percentage interest to all the underlying assets and liabilities of its investee when determining the carrying amount of its investment using the equity method. However, for some of those underlying assets the entity could have a lower interest when accounting for it as a joint operation. The Board concluded that in such a case, an entity should adjust any difference between the net amount of the assets and liabilities recognised and the investment (and any other items that formed part of the entity's net investment in the arrangement) derecognised against retained earnings at the beginning of the earliest period presented.
- BC67 The Board also redeliberated the transition requirements for entities accounting for an interest in a joint operation in its separate financial statements when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. As stated in paragraph BC38, the Board observed that the parties' interests in a joint operation are recognised in their separate financial statements, resulting in no difference between what is recognised in the parties' separate financial statements and in the parties' consolidated financial statements. The Board decided that an entity should adjust any difference between the investment derecognised and the assets and liabilities recognised in respect of the entity's interest in a joint operation against retained earnings at the beginning of the earliest period presented.
- BC68 The Board also considered requiring disclosures to help users of financial statements to understand the consequences of the accounting change from the equity method to accounting for assets and liabilities, and when accounting for an interest in a joint operation in the separate financial statements of an entity when the entity had previously accounted for this interest at cost or in accordance with IFRS 9. The Board decided that in both cases, an entity should provide a reconciliation between the investment derecognised and the breakdown of the assets and liabilities recognised, together with any remaining difference adjusted against retained earnings, at the beginning of the earliest period presented.
- BC69 As stated in paragraph BC57, respondents to the Request for Views also commented on the transition requirements of the IFRSs to be issued in 2011. In relation to the transition requirements relating to the consolidation and joint arrangements IFRSs, the Board noted that the majority of the respondents to the Request for Views had agreed with the tentative decisions that the Board had previously made at the time of the consultation on the transition requirements for those IFRSs.

BC69A In June 2012, the Board amended the transition guidance in Appendix C to IFRS 10 *Consolidated Financial Statements*. When making those amendments, the Board decided to limit the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 10. This is consistent with the minimum comparative disclosure requirements contained in IAS 1 *Presentation of Financial Statements* as amended by *Annual Improvements to IFRSs 2009–2011 Cycle* (issued May 2012). Those amendments confirmed that when an entity applies a changed accounting policy retrospectively, it shall present, as a minimum, three statements of financial position (ie 1 January 2012, 31 December 2012 and 31 December 2013 for a calendar-year entity, assuming no early application of this IFRS) and two of each of the other statements (IAS 1 paragraphs 40A–40B). Notwithstanding this requirement, the Board confirmed that an entity is not prohibited from presenting adjusted comparative information for earlier periods. The Board also decided to make similar amendments to the transition guidance in Appendix C to this IFRS and Appendix C to IFRS 12 *Disclosure of Interests in Other Entities* to be consistent with this decision. The Board noted that if all comparative periods are not adjusted then entities should be required to state that fact, clearly identify the information that has not been adjusted, and explain the basis on which it has been prepared.

BC69B The Board also considered the disclosure requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. On the initial application of an IFRS, paragraph 28(f) of IAS 8 requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected. Changes in the accounting for a joint arrangement on transition to IFRS 11 are likely to affect many line items throughout the financial statements. The Board agreed that this requirement would be burdensome for preparers and so agreed to limit the disclosure of the quantitative impact of any changes in the accounting for a joint arrangement to only the annual period immediately preceding the first annual period for which IFRS 11 is applied. An entity may also present this information for the current period or for earlier comparative periods, but is not required to do so.

Accounting for acquisitions of interests in joint operations

BC69C The IASB considered the transition provisions and effective date of the amendments to IFRS 11. The IASB noted that applying all of the principles of business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS to transactions that have previously been accounted for by applying one of the divergent approaches presented in paragraph BC45B might involve the use of hindsight in determining the acquisition-date fair values of the identifiable assets and liabilities that are to be recognised as part of the transaction and in performing the impairment test for goodwill. Consequently, the IASB decided that an entity would apply the amendments to IFRS 11 prospectively for transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.

Previously held interest in a joint operation (amendments issued in December 2017)

BC69D The Board decided that an entity applies paragraph B33CA to transactions in which joint control is obtained on or after the date it first applies the amendments. The Board concluded that the benefits of applying the amendments retrospectively were unlikely to exceed the costs of doing so because:

- (a) the nature of such transactions varies and restatement might not provide useful trend information to users of financial statements; and
- (b) applying a retrospective approach could result in significant costs for some entities because doing so could require an entity to analyse earlier acquisitions of interests in joint operations.

Summary of main changes from ED 9

BC70 The main changes from the exposure draft ED 9 are:

- (a) IFRS 11 applies to all entities that have an interest in a joint arrangement. The scope exception in the exposure draft for venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, has been removed and has been recharacterised as an exemption from the requirement to measure investments in joint ventures in accordance with the equity method.
- (b) IFRS 11 replaces the term 'shared decisions' introduced by ED 9 with the term 'joint control'. As in IAS 31, 'joint control' is one of the features that, along with the existence of a contractual arrangement, defines 'joint arrangements'.
- (c) IFRS 11 classifies joint arrangements into two types—'joint operations' and 'joint ventures'. Each type of joint arrangement is aligned with a specific accounting requirement. ED 9 had classified joint arrangements into three types—'joint operations', 'joint assets' and 'joint ventures'.
- (d) IFRS 11 provides application requirements to assist entities in the classification of their joint arrangements. The IFRS requires an entity to determine the type of joint arrangement in which it is involved by considering its rights and obligations. In particular, the IFRS requires an entity to give consideration to the structure and legal form of the arrangement, to the terms agreed by the parties in the contractual arrangement and, when relevant, it should also consider other facts and circumstances.
- (e) IFRS 11 clarifies that not all the parties to a joint arrangement need to have joint control for the arrangement to be a joint arrangement. As a result, some of the parties to a joint arrangement might participate in the joint arrangement, but might not have joint control of it.
- (f) The consensus of SIC-13 has been incorporated into IAS 28 (as amended in 2011), and SIC-13 is accordingly withdrawn. ED 9 had proposed to incorporate the consensus of SIC-13 into the standard on joint arrangements.
- (g) The disclosure requirements have been placed in IFRS 12. ED 9 had proposed to incorporate the disclosure requirements for joint arrangements into the standard on joint arrangements.
- (h) IFRS 11 does not require an entity to adjust the differences between the proportionate consolidation method and the equity method retrospectively when an entity changes from proportionate consolidation to the equity method when accounting for its joint ventures. Instead, it requires an entity to recognise its investment in a joint venture as at the beginning of the earliest period presented, by measuring it as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any goodwill arising from acquisition. ED 9 had proposed retrospective application of the requirements.

Cost-benefit considerations

- BC71 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. To attain this objective, the Board seeks to ensure that an IFRS will meet a significant need and that the overall benefits of the resulting information justify the costs of providing it. Although the costs to implement a new IFRS might not be borne evenly, users of financial statements benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.
- BC72 The evaluation of costs and benefits is necessarily subjective. In making its judgement, the Board considered the following:
- (a) the costs incurred by preparers of financial statements;
 - (b) the costs incurred by users of financial statements when information is not available;
 - (c) the comparative advantage that preparers have in developing information, compared with the costs that users would incur to develop surrogate information;
 - (d) the benefit of better economic decision-making as result of improved financial reporting; and
 - (e) the costs of transition for users, preparers and others.
- BC73 The Board concluded that the IFRS benefits preparers and users of financial statements. This is because the accounting for joint arrangements in the IFRS follows a principle-based approach. This approach has allowed the Board to remove the accounting option in IAS 31 so that each type of joint arrangement (ie 'joint operations' and 'joint ventures') is accounted for on a consistent basis. This contributes to enhancing the verifiability, comparability and understandability of these arrangements in entities' financial statements.
- BC74 In the IFRS, the accounting for joint arrangements depends on the rights and obligations arising from the arrangement (not exclusively on whether the parties have chosen a particular structure or legal form to carry out their arrangements, or on the consistent application of an accounting policy—proportionate consolidation or equity method). Thus, the IFRS promotes greater comparability by applying the same approach to different joint arrangements.
- BC75 The Board believes that basing the accounting on the principles in the IFRS results in enhanced verifiability, comparability and understandability, to the benefit of both preparers and users. First, verifiability and understandability are enhanced because the accounting reflects more faithfully the economic phenomena that it purports to represent (ie an entity's rights and obligations arising from its arrangements), which allows them to be better understood. Second, requiring the same accounting for each type of arrangement will enable entities to account for joint arrangements consistently: arrangements that confer on the parties rights to the assets and obligations for the liabilities are joint operations and arrangements that confer on the parties rights to the net assets are joint ventures. Consistency in the accounting for joint arrangements will help to achieve comparability among financial statements, which will enable users to identify and understand similarities in, and differences between, different arrangements.

- BC76 The Board noted that the costs that preparers will have to bear when applying the IFRS to their arrangements are concentrated in the assessment of the type of joint arrangement rather than in the accounting for the arrangements. This is because entities accounting for joint arrangements in accordance with IAS 31 were not required to classify their arrangements on the basis of their rights and obligations arising from the arrangement, but instead on whether the arrangement was structured in an entity. The IFRS will require entities to assess the type of joint arrangement in which they are involved when those arrangements have been structured through a separate vehicle. Even though the classification of the joint arrangements represents an additional assessment that was not required in IAS 31, the application requirements in the IFRS that should assist preparers in the classification of their arrangements are not unduly complex. The Board does not think that the additional assessment that the IFRS will require for the classification of arrangements will result in an undue cost to preparers.
- BC77 The Board noted that the IFRS, by comparison with the exposure draft, simplifies the proposals by aligning the types of joint arrangement with the accounting methods. The Board concluded that once an entity has determined the classification of the arrangement, the accounting for the arrangement will follow accounting procedures that have not been modified by the IFRS (ie entities will either account for assets and liabilities or they will account for an investment using the equity method). However, the Board acknowledged that the requirement for joint operations to be accounted for in the same way in the entity's consolidated financial statements as in the entity's separate financial statements might lead to additional costs to entities in jurisdictions in which separate financial statements are required to be reported in accordance with IFRSs. This is because those requirements might cause entities to perform additional manual procedures such as reconciliations between the statutory accounts and the tax returns, and might require an entity to provide additional explanations of the impact of the changes to, for example, its creditors. Except for these costs and any other costs required on transition, the costs of accounting for joint arrangements once the entities have determined their classification will remain unchanged as a result of the IFRS.
- BC78 The Board concluded that enhanced verifiability, comparability and understandability result in a more faithful representation of joint arrangements in the financial statements of the entities that are involved in such arrangements, and that those benefits outweigh the costs that preparers might incur when implementing the IFRS.

Appendix

Amendments to the Basis for Conclusions on other IFRSs

This appendix contains amendments to the Basis for Conclusions on other IFRSs that are necessary in order to ensure consistency with IFRS 11 and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.

The amendments contained in this appendix when this IFRS 11 was issued in 2011 have been incorporated into the Basis for Conclusions on the relevant Standards.

Illustrative Examples
Hong Kong Financial Reporting Standard 11

Joint Arrangements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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IFRS 11 *Joint Arrangements*

Illustrative Examples

These examples accompany, but are not part of, IFRS 11. They illustrate aspects of IFRS 11 but are not intended to provide interpretative guidance.

IE1 These examples portray hypothetical situations illustrating the judgements that might be used when applying IFRS 11 in different situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying IFRS 11.

Example 1 – Construction services

IE2 A and B (the parties) are two companies whose businesses are the provision of many types of public and private construction services. They set up a contractual arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The contractual arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road.

IE3 The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

IE4 The contractual arrangement between A and B additionally establishes that:

- (a) the rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the arrangement;
- (b) the parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and
- (c) the profit or loss resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

IE5 For the purposes of co-ordinating and overseeing the activities, A and B appoint an operator, who will be an employee of one of the parties. After a specified time, the role of the operator will rotate to an employee of the other party. A and B agree that the activities will be executed by the operator's employees on a 'no gain or loss' basis.

IE6 In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

Analysis

- IE7 The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their contractual arrangement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation.
- IE8 A and B each recognise in their financial statements their share of the assets (eg property, plant and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (eg accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

Example 2 – Shopping centre operated jointly

- IE9 Two real estate companies (the parties) set up a separate vehicle (entity X) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the rental of the retail units, managing the car park, maintaining the centre and its equipment, such as lifts, and building the reputation and customer base for the centre as a whole.
- IE10 The terms of the contractual arrangement are such 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. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.
 - 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 (which is the rental income net of the operating costs) in accordance with its interest in entity X.

Analysis

- IE11 The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the contractual arrangement establish that the parties have rights to the net assets of entity X.
- IE12 On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.
- IE13 The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint manufacturing and distribution of a product

- IE14 Companies A and B (the parties) have set up a strategic and operating agreement (the framework agreement) in which they have agreed the terms according to which they will conduct the manufacturing and distribution of a product (product P) in different markets.
- IE15 The parties have agreed to conduct manufacturing and distribution activities by establishing joint arrangements, as described below:
- (a) Manufacturing activity: the parties have agreed to undertake the manufacturing activity through a joint arrangement (the manufacturing arrangement). The manufacturing arrangement is structured in a separate vehicle (entity M) whose legal form causes it to be considered in its own right (ie the assets and liabilities held in entity M are the assets and liabilities of entity M and not the assets and liabilities of the parties). In accordance with the framework agreement, the parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement in accordance with their ownership interests in entity M. The parties subsequently sell product P to another arrangement, jointly controlled by the two parties themselves, that has been established exclusively for the distribution of product P as described below. Neither the framework agreement nor the contractual arrangement between A and B dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity.
 - (b) Distribution activity: the parties have agreed to undertake the distribution activity through a joint arrangement (the distribution arrangement). The parties have structured the distribution arrangement in a separate vehicle (entity D) whose legal form causes it to be considered in its own right (ie the assets and liabilities held in entity D are the assets and liabilities of entity D and not the assets and liabilities of the parties). In accordance with the framework agreement, the distribution arrangement orders its requirements for product P from the parties according to the needs of the different markets where the distribution arrangement sells the product. Neither the framework agreement nor the contractual arrangement between A and B dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE16 In addition, the framework agreement establishes:
- (a) that the manufacturing arrangement will produce product P to meet the requirements for product P that the distribution arrangement places on the parties;
 - (b) the commercial terms relating to the sale of product P by the manufacturing arrangement to the parties. The manufacturing arrangement will sell product P to the parties at a price agreed by A and B that covers all production costs incurred. Subsequently, the parties sell the product to the distribution arrangement at a price agreed by A and B.
 - (c) that any cash shortages that the manufacturing arrangement may incur will be financed by the parties in accordance with their ownership interests in entity M.

Analysis

- IE17 The framework agreement sets up the terms under which parties A and B conduct the manufacturing and distribution of product P. These activities are undertaken through joint arrangements whose purpose is either the manufacturing or the distribution of product P.
- IE18 The parties carry out the manufacturing arrangement through entity M whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the contractual arrangement dealing with the manufacturing activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, when considering the following facts and circumstances the parties have concluded that the manufacturing arrangement is a joint operation:
- (a) The parties have committed themselves to purchasing the whole production of product P manufactured by the manufacturing arrangement. Consequently, A and B have rights to substantially all the economic benefits of the assets of the manufacturing arrangement.
 - (b) The manufacturing arrangement manufactures product P to meet the quantity and quality needs of the parties so that they can fulfil the demand for product P of the distribution arrangement. The exclusive dependence of the manufacturing arrangement upon the parties for the generation of cash flows and the parties' commitments to provide funds when the manufacturing arrangement incurs any cash shortages indicate that the parties have an obligation for the liabilities of the manufacturing arrangement, because those liabilities will be settled through the parties' purchases of product P or by the parties' direct provision of funds.
- IE19 The parties carry out the distribution activities through entity D, whose legal form confers separation between the parties and the entity. In addition, neither the framework agreement nor the contractual arrangement dealing with the distribution activity specifies that the parties have rights to the assets, and obligations for the liabilities, relating to the distribution activity.
- IE20 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets relating to the distribution arrangement or that the parties have an obligation for the liabilities relating to that arrangement. The distribution arrangement is a joint venture.
- IE21 A and B each recognise in their financial statements their share of the assets (eg property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (eg accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognises its share of the expenses resulting from the manufacture of product P incurred by the manufacturing arrangement and its share of the revenues relating to the sales of product P to the distribution arrangement.
- IE22 The parties recognise their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

- IE23 Assume that the parties agree that the manufacturing arrangement described above is responsible not only for manufacturing product P, but also for its distribution to third-party customers.
- IE24 The parties also agree to set up a distribution arrangement like the one described above to distribute product P exclusively to assist in widening the distribution of product P in additional specific markets.
- IE25 The manufacturing arrangement also sells product P directly to the distribution arrangement. No fixed proportion of the production of the manufacturing arrangement is committed to be purchased by, or to be reserved to, the distribution arrangement.

Analysis

- IE26 The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the contractual terms relating to the parties' rights to the assets, and obligations for the liabilities, relating to the manufacturing activity. However, it causes the manufacturing arrangement to be a self-financed arrangement because it is able to undertake trade on its own behalf, distributing product P to third-party customers and, consequently, assuming demand, inventory and credit risks. Even though the manufacturing arrangement might also sell product P to the distribution arrangement, in this scenario the manufacturing arrangement is not dependent on the parties to be able to carry out its activities on a continuous basis. In this case, the manufacturing arrangement is a joint venture.
- IE27 The variation has no effect on the classification of the distribution arrangement as a joint venture.
- IE28 The parties recognise their rights to the net assets of the manufacturing arrangement and their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Example 4 – Bank operated jointly

- IE29 Banks A and B (the parties) agreed to combine their corporate, investment banking, asset management and services activities by establishing a separate vehicle (bank C). Both parties expect the arrangement to benefit them in different ways. Bank A believes that the arrangement could enable it to achieve its strategic plans to increase its size, offering an opportunity to exploit its full potential for organic growth through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.
- IE30 The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). Banks A and B each have a 40 per cent ownership interest in bank C, with the remaining 20 per cent being listed and widely held. The shareholders' agreement between bank A and bank B establishes joint control of the activities of bank C.
- IE31 In addition, bank A and bank B entered into an irrevocable agreement under which, even in the event of a dispute, both banks agree to provide the necessary funds in equal amount and, if required, jointly and severally, to ensure that bank C complies with the applicable legislation and banking regulations, and honours any commitments made to the banking authorities. This commitment represents the assumption by each party of 50 per cent of any funds needed to ensure that bank C complies with legislation and banking regulations.

Analysis

- IE32 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of bank C, but it establishes that the parties have rights to the net assets of bank C. The commitment by the parties to provide support if bank C is not able to comply with the applicable legislation and banking regulations is not by itself a determinant that the parties have an obligation for the liabilities of bank C. There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of bank C and that the parties have an obligation for the liabilities of bank C. The joint arrangement is a joint venture.
- IE33 Both banks A and B recognise their rights to the net assets of bank C as investments and account for them using the equity method.

Example 5 – Oil and gas exploration, development and production activities

- IE34 Companies A and B (the parties) set up a separate vehicle (entity H) and 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 causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE35 Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).
- IE36 The shareholders' agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

Shareholders' agreement

- IE37 The board of entity H consists of a director from each party. Each party has a 50 per cent shareholding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

- IE38 The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50 per cent participating interest in the Operating Committee.
- IE39 The Operating Committee approves the budgets and work programmes relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programmes.
- IE40 The JOA 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. In particular, the JOA establishes that the parties share:

- (a) the rights and the obligations arising from the exploration and development permits granted to entity H (eg the permits, rehabilitation liabilities, any royalties and taxes payable);
- (b) the production obtained; and
- (c) all costs associated with all work programmes.

IE41 The costs incurred in relation to all the work programmes are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

IE42 The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (eg exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (eg all costs and obligations arising from the work programmes) that are held in entity H. The joint arrangement is a joint operation.

IE43 Both company A and company B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 6 – Liquefied natural gas arrangement

- IE44 Company A owns an undeveloped gas field that contains substantial gas resources. Company A determines that the gas field will be economically viable only if the gas is sold to customers in overseas markets. To do so, a liquefied natural gas (LNG) facility must be built to liquefy the gas so that it can be transported by ship to the overseas markets.
- IE45 Company A enters into a joint arrangement with company B in order to develop and operate the gas field and the LNG facility. Under that arrangement, companies A and B (the parties) agree to contribute the gas field and cash, respectively, to a new separate vehicle, entity C. In exchange for those contributions, the parties each take a 50 per cent ownership interest in entity C. The main feature of entity C's legal form is that it causes the separate vehicle to be considered in its own right (ie the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).
- IE46 The contractual arrangement between the parties specifies that:
- companies A and B must each appoint two members to the board of entity C. The board of directors must unanimously agree the strategy and investments made by entity C.
 - day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of company B in accordance with the directions jointly agreed by the parties. Entity C will reimburse B for the costs it incurs in managing the gas field and LNG facility.
 - entity C is liable for taxes and royalties on the production and sale of LNG as well as for other liabilities incurred in the ordinary course of business, such as accounts payable, site restoration and decommissioning liabilities.
 - companies A and B have equal shares in the profit from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends distributed by entity C.
- IE47 The contractual arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.
- IE48 The board of entity C decides to enter into a financing arrangement with a syndicate of lenders to help fund the development of the gas field and construction of the LNG facility. The estimated total cost of the development and construction is CU1,000 million.¹
- IE49 The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to companies A and B only if entity C defaults on the loan arrangement during the development of the field and construction of the LNG facility. The lending syndicate agrees that it will not have recourse to companies A and B once the LNG facility is in production because it has assessed that the cash inflows that entity C should generate from LNG sales will be sufficient to meet the loan repayments. Although at this time the lenders have no recourse to companies A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

¹ In these examples monetary amounts are denominated in 'currency units (CU)'.

Analysis

- IE50 The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The terms of the contractual arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, of entity C, but they establish that the parties have rights to the net assets of entity C. The recourse nature of the financing arrangement during the development of the gas field and construction of the LNG facility (ie companies A and B providing separate guarantees during this phase) does not, by itself, impose on the parties an obligation for the liabilities of entity C (ie the loan is a liability of entity C). Companies A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.
- IE51 There are no other facts and circumstances that indicate that the parties have rights to substantially all the economic benefits of the assets of entity C and that the parties have an obligation for the liabilities of entity C. The joint arrangement is a joint venture.
- IE52 The parties recognise their rights to the net assets of entity C as investments and account for them using the equity method.

Example 7—Accounting for acquisitions of interests in joint operations in which the activity constitutes a business

- IE53 Companies A, B and C have joint control of Joint Operation D whose activity constitutes a business, as defined in IFRS 3 *Business Combinations*.
- IE54 Company E acquires company A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.
- IE55 The contractual arrangement between the parties that Company E joined as part of the acquisition establishes that Company E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Company E's share in the assets and liabilities related to Joint Operation D as established in the contractual arrangement between the parties:

<i>Company E's share in the assets and liabilities related to Joint Operation D</i>	
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

- IE56 Company E recognises in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 20).
- IE57 It applies the principles on business combinations accounting in IFRS 3 and other IFRSs for identifying, recognising, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Company E acquired an interest in a joint operation in which the activity constitutes a business (see paragraph 21A).
- IE58 However, Company E does not apply the principles on business combinations accounting in IFRS 3 and other IFRSs that conflict with the guidance in this IFRS. Consequently, in accordance with paragraph 20, Company E recognises, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the contractual arrangement. Company E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.
- IE59 IFRS 3 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, deferred tax assets and deferred tax liabilities are not measured at fair value but are measured in accordance with IAS 12 *Income Taxes*. Such measurement does not conflict with this IFRS and thus those requirements apply.
- IE60 Consequently, Company E determines the fair value, or other measure specified in IFRS 3, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by IFRS 3 of Company E's shares in the identifiable assets and liabilities related to Joint Operation D:

<i>Fair value or other measure specified by IFRS 3 for Company E's shares in the identifiable assets and liabilities of Joint Operation D</i>	
CU	
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability	(24)
Net assets	228

- IE61 In accordance with IFRS 3, the excess of the consideration transferred over the amount allocated to Company E's shares in the net identifiable assets is recognised as goodwill:

Consideration transferred	CU300
Company E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	<u>CU228</u>
Goodwill	<u>CU72</u>

- IE62 Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognised as expenses in profit or loss in the period that the costs are incurred and the services are received (see paragraph 53 of IFRS 3).

Example 8—Contributing the right to use know-how to a joint operation in which the activity constitutes a business

- IE63 Companies A and B are two companies whose business is the construction of high performance batteries for diverse applications.
- IE64 In order to develop batteries for electric vehicles they set up a contractual arrangement (Joint Operation Z) to work together. Companies A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes a business, as defined in IFRS 3.
- IE65 After several years, the joint operators (Companies A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in the production of cosmetics.
- IE66 In order to get access to existing know-how in processing Material M, Companies A and B arrange for Company C to join as another joint operator by acquiring an interest in Joint Operation Z from Companies A and B and becoming a party to the contractual arrangements.
- IE67 Company C's business so far has been solely the development and production of cosmetics. It has long-standing and extensive knowledge in processing Material M.
- IE68 In exchange for its share in Joint Operation Z, Company C pays cash to Companies A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Company C seconded some of its employees who are experienced in processing Material M to Joint Operation Z. However, Company C does not transfer control of the know-how to Companies A and B or Joint Operation Z because it retains all the rights to it. In particular, Company C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Companies A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.
- IE69 The fair value of Company C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Company C was CU300.

Analysis

- IE70 Company C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes a business, as defined in IFRS 3.
- IE71 In accounting for the acquisition of its interest in the joint operation, Company C applies all the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the guidance in this IFRS (see paragraph 21A). Company C therefore recognises in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 20).
- IE72 Company C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Company C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Companies A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.
- IE73 Consequently, Company C continues to recognise the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Company C will continue to recognise the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Company C has granted the right to use the know-how to itself. Consequently, Company C does not remeasure the know-how, and it does not recognise a gain or loss on the grant of the right to use it.