IFRS 11 *Joint Arrangements*

Last updated: March 2017

SCOPE AND DEFINITIONS

Applies to: ALL entities that are party to *joint arrangements* (JA).

- **Joint arrangement** = arrangement where two or more parties have *joint control*.
- **Joint control** = contractually agreed sharing of *control* of an arrangement, which exists only when decisions on *relevant activities* require *unanimous* consent of parties sharing *control*.
- **Control** = when all parties are exposed, or have rights, to variable returns from involvement with arrangement and have the ability to affect those returns through its power over the arrangement.
- **Relevant activities** = activities that significantly affect the arrangement's returns.
- **Unanimous consent** = any party with *joint control* can prevent any other party(ies) from making unilateral decisions about the *relevant activities* without its consent.

JOINT ARRANGEMENTS

Characteristics of *JA:*

- Parties are bound by a *contractual arrangement.*
- *Contractual arrangement* gives two or more parties *joint control.*

Contractual arrangements: sets out the terms upon which parties participate in the activity that is the subject of the arrangement.

- Often in writing, but not always.
- Generally, deals with matters such as:
  - Purpose, duration and activity of *JA*.
  - Appointment of board of directors/equivalent governing body.
  - Decision making process.
  - Capital/other contributions required by parties.
  - How parties share assets, liabilities, revenue, expenses or P/L.

JOINT CONTROL

- **Step 1:** Do parties *control* the arrangement collectively (i.e., they must act together to direct *relevant activities*)?
- **Step 2:** Do parties that *control* collectively have *joint control*?
  - Sometimes decision-making process agreed upon implicitly leads to *joint control* (e.g. two parties each hold 50% of voting rights and decision about the *relevant activities* requires at least 51% of voting rights).
  - *Contractual arrangement* may contain clauses on resolution of disputes that allow decisions in absence of *unanimous consent* (e.g. arbitration) → such clauses do NOT prevent arrangement from being jointly controlled.
  - *Joint control* is reassessed when facts and circumstances change.

CLASSIFICATION OF JOINT ARRANGEMENTS

CLASSIFY ARRANGEMENT AS EITHER:

JOINT OPERATION (JO)	JOINT VENTURE (JV)
Parties with *joint control* have rights to ASSETS and obligations for the LIABILITIES of the arrangement. ▪ Parties are called joint operators.	Parties with *joint control* have rights to the NET ASSETS of the arrangement. ▪ Parties are called joint venturers.

Use judgement to assess rights and obligations of parties in order to classify *JA*. Refer to Appendix A in this snapshot for a description of the various considerations when determining the appropriate classification of a *JA*.

- Reassess classification when facts and circumstances change.

TRANSACTIONS BETWEEN JOINT OPERATOR AND JO

- **Joint operator contributes/sells assets to JO:**
  - Recognize resulting gain/losses only to extent of other parties' interests.
- **Joint operator purchases assets from JO:**
  - Joint operator does NOT recognize its share of gain/loss until assets resold to third party.

If transaction provides evidence of reduction in net realizable value/impairment loss → joint operator recognizes loss in full (for sales) or its share of the losses (for purchases).

F/S OF PARTIES TO A JOINT ARRANGEMENT

JOINT OPERATION

- **For parties to the JO who do not have *joint control*, if they have rights to assets and liabilities relating to the JO, and joint operators:**
  - **In separate and consolidated F/S:** recognize the following, as per the applicable IFRSs, in relation to its interest in JO:
    - Its assets and its share of assets held jointly;
    - Its liabilities and its share of liabilities incurred jointly;
    - Its revenue from the sale of its share of the output arising from JO;
    - Its share of the revenue from the sale of the output by the JO; and
    - Its expenses and its share of expenses incurred jointly.
  - When JO acquired constitutes a business per IFRS 3, apply all business combination principles per IFRS 3 that do not conflict with IFRS11.
- **For parties to the JO who do not have *joint control* and no rights to assets and liabilities relating to the JO:**
  - **In separate and consolidated F/S:** account for interest in accordance with IFRSs applicable to that interest.

JOINT VENTURE

- **For joint venturers:**
  - **In consolidated F/S:** recognize interest as investment using the equity method under IAS 28 UNLESS exempt from applying equity method.
  - **In separate F/S:** account for investment at cost, in accordance with IAS 39/IFRS 9 or using the equity method as per IAS 28.
- **For parties to the JV who do not have *joint control*:**
  - **In consolidated F/S:**
    - If significant influence → recognize interest as investment using equity method under IAS 28 UNLESS exempt from applying equity method.
    - If NO significant influence → apply IAS 39/IFRS 9.
  - **In separate F/S:**
    - If significant influence → account for investment in accordance with IAS 39/IFRS 9.
    - If NO significant influence → account for investment at cost, in accordance with IAS 39/IFRS 9 or using the equity method as per IAS 28.

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Appendix A: Classifying a Joint Arrangement