

## IFRS 11 and IFRS 12 Joint Arrangements and related disclosures

### Private Consultation

**Confidentiality:** All of the information that you provide to EFRAG in response to this questionnaire and at the interviews with EFRAG staff will remain confidential. Information used in the effects report will be presented in such a way that no individual company and person will be able to be identified.

This Questionnaire has been prepared by EFRAG staff.

#### Introduction

- 1 In May 2011, the IASB published IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*<sup>1</sup> as part of a package of new standards on consolidation. IFRS 11 and IFRS 12 are referred to in this document as ‘the new standards’ or ‘the new requirements’.
- 2 The IASB also published a Project summary and a Feedback statement that explains the background and the work done in developing the new requirements. An Effect Analysis of impacts of IFRS 11 was published by the IASB in July 2011.

#### Background

- 3 The European Financial Reporting Advisory Group (EFRAG) is currently performing an initial assessment of the new standards against the technical criteria for the endorsement in the EU and also an initial effect study.
- 4 Implementation of the new requirements may result in different levels of operational difficulty and related costs and benefits for preparers. The significance of the effects of IFRS 11 will depend mainly upon the accounting method used by entities when accounting for its ‘jointly controlled entities’ in accordance with IAS 31 *Interests in Joint Ventures* and the classification of those arrangements in accordance with IFRS 11 (i.e. joint operations or joint ventures).
- 5 The impact of implementing the disclosure requirements in IFRS 12 is likely to vary from entity to entity.

#### Objective of this private consultation

- 6 To gather additional input for the initial assessment of the new requirements, EFRAG has decided to ask preparers for input.

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<sup>1</sup> At the same time, the IASB has also published IFRS 10 *Consolidated Financial Statements* and the consequential amendments to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

- 7 The results of this consultation will be considered by EFRAG in drafting its endorsement advice and effect study report on the new standards. EFRAG's initial assessment of the new standards against the technical criteria for their endorsement in the EU is expected to be issued for public comment in November 2011.
- 8 This consultation is intended to **test the implementation** of IFRS 11 and IFRS 12 and estimate the expected impact regarding related costs and benefits for preparers. It is expected that IFRS 11 will represent a change mainly in the accounting for arrangements that are classified in IAS 31 as 'jointly controlled entities'. Therefore, the consultation does not aim to test the full set of the new requirements, but rather to focus on the areas that are likely to be challenging for preparers. These areas include:
- (a) classification of joint arrangements – joint operations versus joint ventures as defined in IFRS 11;
  - (b) joint operations – changing from the equity method to accounting for assets and liabilities and revenue and expenses in respect to interests in IFRS 11 joint operations;
  - (c) joint ventures – changing from the proportionate consolidation method to the equity method in respect to interests in IFRS 11 joint ventures; and
  - (d) expanded disclosure requirements under IFRS 12.

#### **What we ask you to do**

- 9 As a participant you are asked to go through the new requirements in respect of the areas identified above and apply them to a representative sample of interests in joint arrangements that reflects the different jointly controlled structures your organisation is involved with (referred to throughout this questionnaire as "the sample"). Given the objective of the consultation as described in paragraphs 6-8 above, we would like you to focus your selection on joint arrangements classified as "jointly controlled entities" in IAS 31 (arrangements structured through a separate vehicle).
- 10 Based on the sample, we would ask you to report any implementation and operational issues that you experience with regard to application of the new requirements. In doing this work, you should describe any operational difficulty encountered in respect to classification, accounting and disclosure requirements of the joint arrangements selected as part of the sample.
- 11 We would appreciate you to make an estimate of the expected impact, if any, of the new requirements on the financial position and performance of your company, and the effort (in terms of associated costs) needed to implement the changes. Some of the costs of the initial application of the new standards may include educational efforts required to read and understand the new requirements and their application. Other initial and on-going costs could include changes to systems and information gathering processes.
- 12 Please inform us also of the benefits you consider the new standards would generate for your organisation. Some of the benefits may derive from removing the accounting choice for jointly controlled entities, and account for economically similar

arrangements in the same way, and enable users of financial statements to have information that is more comparable.

- 13 This questionnaire comprises a targeted set of questions, which will guide you step-by-step through the “field-test” of the new requirements. Please document your observations and findings in the sections specified. You are kindly requested to send the completed questionnaire to [magdalena.zogala@efrag.org](mailto:magdalena.zogala@efrag.org) by **17 October 2011**. After reviewing the results, we may wish to conduct an interview with you either by telephone or face-to-face to discuss your responses to the questions. Please provide the details about yourself in paragraph 16.
- 14 In summary, you are asked to do the following:
- (a) read the new requirements;  
  
[for ease of reference all the questions in this Questionnaire are introduced by a description of the main changes to existing IAS 31]
  - (b) identify which jointly controlled entities under IAS 31 could be joint arrangements under IFRS 11;
  - (e) select a sample of joint arrangements, and apply the new requirements on classification of the joint arrangements (joint operations and joint ventures) and accounting for the arrangements;
  - (f) document your findings in respect of any operational difficulty that you encounter;
  - (g) document the estimated impact of implementing the new requirements with regard to costs and benefits associated with implementation; and
  - (h) document your findings in respect of any operational difficulty in respect of implementation of the disclosure requirements in IFRS 12.
- 15 This questionnaire has been structured as follows :
- (a) Part A : IFRS 11 *Joint Arrangements*
  - (b) Part B : IFRS 12 *Disclosure of Interests in Other Entities*
  - (c) Part C : Other matters.

## Questions for Preparers

### Contact information

16 Please provide the following details about your company:

(a) Please provide a short description of your activity/industry:

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(b) Country where you are located:

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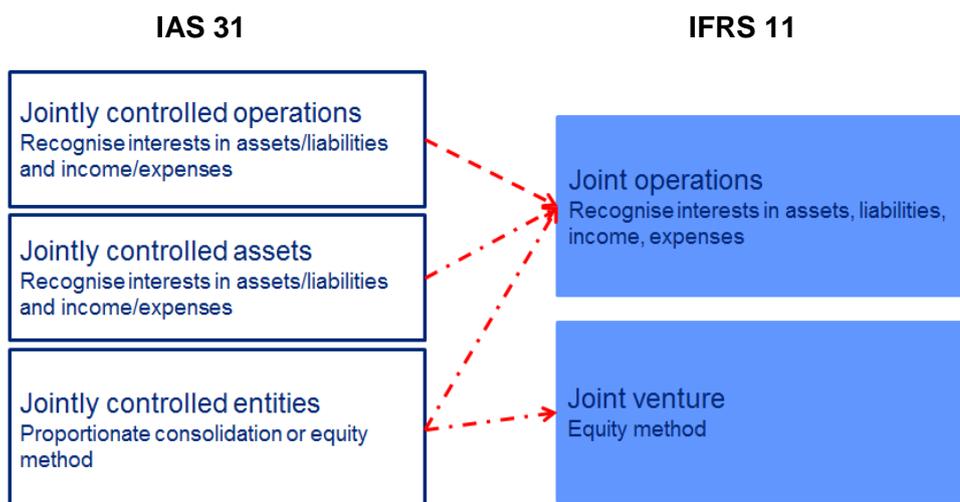
(c) Contact details including e-mail address:

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### PART A: IFRS 11 JOINT ARRANGEMENTS

#### Overview of changes

- 17 A joint arrangement is an arrangement over which two or more parties have *joint control*, being the contractually agreed sharing of control – that is unanimous consent is required for decisions about the relevant activities.
- 18 IFRS 11 replaces the term ‘joint ventures’ with ‘joint arrangements’ and defines two categories of joint arrangements (joint operations and joint ventures) instead of three categories as referred to in IAS 31 (namely, jointly controlled operations; jointly controlled assets and jointly controlled entities).
- 19 IFRS 11 eliminates proportionate consolidation as a method to account for jointly controlled entities and sets out guidance that indicates when an entity should account for:
- (a) assets/liabilities and revenue/expenses relating to its interest in a joint arrangement in accordance with applicable IFRSs (joint operation under IFRS 11); and
  - (b) when it should account for its interest in a joint arrangement according to the equity method (joint venture under IFRS 11).
- 20 IFRS 11 will represent a change mainly in the accounting for arrangements that are classified in IAS 31 as ‘jointly controlled entities’. Accounting for joint arrangements that are classified in IAS 31 as jointly controlled operations and jointly controlled assets is unlikely to change. The following diagram illustrates the main changes to IAS 31 in terms of classification of joint arrangements (as referred in IFRS 11) and accounting for those arrangements:



**This questionnaire addresses classification and accounting for joint arrangements classified in IAS 31 as ‘jointly controlled entities’.**

## Section 1 Classification of joint arrangements

### Main changes compared to IAS 31

IFRS 11 identifies two types of joint arrangements: a **joint operation (JO)** and a **joint venture (JV)**.

In a joint operation, the parties have rights to the assets and obligations for the liabilities of the arrangement. In contrast, in a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.

In classifying a joint arrangement, IFRS 11 requires preparers to consider the legal form, the terms of the contractual arrangement, and when relevant, other facts and circumstances.

Under IFRS 11, a joint arrangement may be a joint operation, even though the arrangement has been created through a separate vehicle (such as a jointly controlled entity).

### Current approach

- 21 Are you involved in joint arrangements (referred as joint ventures in IAS 31), and if so, are these arrangements significant to your organisation? Please give an indication of the relative size of the joint arrangement(s) (as a proportion of total assets).

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- 22 How are your joint arrangements classified under IAS 31 (as jointly controlled operations, jointly controlled assets or joint controlled entities)? Can you provide the number of joint arrangements that fall under each category?

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**If you have indicated that you are not involved in joint arrangements that are jointly controlled entities under IAS 31, please disregard the remaining questions in this questionnaire.**

- 23 Can you provide the general features (including facts and circumstances) associated with the arrangements classified as jointly controlled entities under IAS 31? For example, their legal form and a brief description of the contractual agreement. For each arrangement in your sample, please explain whether they are accounted for using proportionate consolidation or the equity method under IAS 31?

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*Implementing IFRS 11*

- 24 Please explain the facts and circumstances that lead you to conclude that the sample of joint arrangements are **joint operations** under IFRS 11. Please explain any type of operational difficulty you have faced in applying the classification guidance to the sample.

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- 25 Please explain the facts and circumstances that lead you to conclude that the sample of joint arrangements are **joint ventures** under IFRS 11. Please explain any type of operational difficulty you have faced in applying the classification guidance.

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- 26 Do you expect the facts and circumstances of your sample of joint arrangements to change at each reporting year, resulting in a **re-assessment** of the classification? If yes, can you list and briefly explain those facts and circumstances.

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**Section 2 Accounting for IFRS 11 joint operations created using a separate vehicle (IAS 31 jointly controlled entities)**

**Main changes to the existing IAS 31**

In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement.

The contractual arrangement between the parties and, when relevant, other facts and circumstances, might establish that the parties have rights to the assets and obligations for the liabilities held in the separate vehicle in which the arrangement has been structured.

IFRS 11 requires a joint operator to recognise the assets and liabilities and revenue and expenses relating to its interest in a joint operation in accordance with applicable IFRSs. Under IAS 31, some of these arrangements might have been accounted for using the equity method.

IFRS 11 eliminates proportionate consolidation as a method of accounting for joint operations (that were classified in IAS 31 as jointly controlled entities) and requires a joint operator to account for its share in assets and liabilities in accordance with the contractual arrangement and not necessarily based on ownership rights.

*Current approach*

- 27 Please explain whether your interests in joint operations (structured through a separate vehicle) are accounted for using proportionate consolidation or the equity method under IAS 31. Please give an indication of magnitude for each classification under IAS 31 (as a proportion of total assets).

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*Implementing IFRS 11*

Questions 28-31 are most applicable if you currently use the equity method to account for IAS 31 jointly controlled entities and will need to change to recognising assets and liabilities and revenue and expenses, when you apply IFRS 11.

- 28 In applying IFRS 11 to your sample of joint operations, did you encounter any operational difficulty to recognise the assets and liabilities and revenue and expenses relating to your interest in the joint operations? If yes, please provide a brief description.

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- 29 Will you need to substantially modify your existing information system(s) and reporting process(s) or implement a new one to comply with this new requirement? If yes, please provide an indication of magnitude of the impact (as a proportion of your total assets) and a brief explanation to support your response.

Yes       No

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- 30 As part of **transition** from the equity method to recognition of the assets and liabilities and revenue and expenses relating to the interest in a joint operation, is there any specific operational difficulty for your organisation? If yes, please describe this difficulty.

Yes       No

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- 31 As part of **transition** from proportionate consolidation to recognition of the assets and liabilities and revenue and expenses relating to the interest in a joint operation, is there any specific operational difficulty for your organisation? If yes, please describe this difficulty.

Yes       No

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### Section 3 Accounting for IFRS 11 joint ventures created using a separate vehicle (IAS 31 jointly controlled entities)

#### Main changes to the existing IAS 31

In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and will be accounted for using the equity method.

IFRS 11 removes the option of accounting for a joint venture using the proportionate consolidation and requires using the equity method.

Some arrangements, which met the definition of a jointly controlled entity under IAS 31, will meet the classification criteria for joint ventures under IFRS 11, and a joint venturer will no longer have an option of using the proportionate consolidation to account for its interest in a joint venture.

#### Current approach

- 32 Please explain whether your interests in IAS 31 joint ventures are currently accounted for using proportionate consolidation, the equity method or both. Please give an indication of magnitude for each classification under IAS 31 (as a proportion of total assets).
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- 33 If you use proportionate consolidation to account for joint arrangements classified as joint ventures under IFRS 11 (IAS 31 jointly controlled entities), do you use proportionate consolidation in reporting operating segment information under IFRS 8 *Operating Segments*?
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*Implementing IFRS 11*

Questions 34-37 are most applicable if you currently use proportionate consolidation to account for IAS 31 jointly controlled entities and will need to change to the equity method, when you apply IFRS 11.

- 34 In applying IFRS 11 to the sample of joint arrangements, did you encounter any operational difficulty to apply the equity method? If yes, please provide a brief description.
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- 35 Will you need to modify your existing information system(s) and reporting process(s) or implement a new one to comply with this new requirement? If yes, please provide an indication of magnitude of the impact (as a proportion of your total assets) and a brief explanation to support your response.

Yes       No

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- 36 If you use proportionate consolidation for internal management reporting purposes and reporting under IFRS 8, will you continue to use it or will you change to the equity method? If you continue to use it, does it create any operational difficulty for your organisation or other reporting concerns? If yes, please briefly explain them.
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- 37 As part of **transition** from proportionate consolidation to the equity method, is there any specific operational difficulty for your organisation? If yes, please describe this difficulty.

Yes       No

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## Section 4 Impact in terms of costs and benefits of implementing IFRS 11

### Note to participants

The following section is intended to assess the incremental one-off and on-going costs of implementing the new requirements for accounting interests in joint arrangements under IFRS 11.

Examples of costs include, but are not limited to, training of employees, changes to accounting and reporting systems, changes to existing and implementation of new processes, audit and valuation services fees etc.

- 38 Based on the sample of joint arrangements and the findings of the assessment done on classification and accounting (sections 1-3), please indicate which are the main benefits of IFRS 11:

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- 39 Based on the new requirements in IFRS 11, will your company need to reassess all joint arrangements on transition to IFRS 11? Why or why not? If your answer is yes, what are the main areas of difficulty you anticipate and could you outline the type of associated costs in doing so and the magnitude of those costs (as a proportion or total assets or other reasonable measure)?

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- 40 Please provide a list of costs that you expect to incur and an estimate of their magnitude. Please indicate a quantitative estimate of an amount (e.g. a point estimate, a range of amounts or expressed as a percentage). If you are unable to make a quantitative estimate, please provide a narrative description of the expected effort and its significance for your organisation:

Type	Estimated impact
<i>One-off costs</i>	
[ ]	[ ]
[ ]	[ ]
<i>On-going costs</i>	
[ ]	[ ]
[ ]	[ ]

- 41 How would you rate the overall operational difficulty of applying the new requirements to the sample of the joint arrangements that you have tested?

Area of assessment	High	Moderate	Low
Classification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accounting for joint operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accounting for joint ventures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transition requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 42 If you indicate 'high', please explain such difficulties in more detail below.

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- 43 Will the period of time before the mandatory effective date of 1 January 2013 be sufficient for your company to implement the new requirements? If not, please explain why and indicate the date, from which it would be feasible to implement.

Yes       No

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**PART B: IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES**

**Main changes to IAS 31**

IFRS 12 requires preparers to provide more detailed information about interests in joint arrangements, including:

- (a) significant judgements and assumptions made in determining whether an entity has joint control of an arrangements and in classification of joint arrangements structured through a separate vehicle;
- (b) descriptive information about all material joint arrangements (list, activities, ownership);
- (c) summarised financial information about each material joint venture; and
- (d) significant restrictions on the ability of joint venture to transfer funds or to repay loans or advances.

Furthermore, IFRS 12 increases the quantitative disclosure that includes summarised financial information for each material joint venture, and in aggregate for all individually immaterial joint ventures. Aggregation of the data is permitted for interests in similar entities, if the information is not obscured by the aggregation. IAS 31 required summarised financial information in aggregate for all interests in joint ventures.

IFRS 12 requires limited disclosure for interests in material joint operations. Interests in joint operations are accounted for in accordance with applicable IFRSs (including disclosure requirements).

IFRS 12 requires the same disclosure to be provided by all investors, including venture capital organisations, mutual funds, unit trusts and similar entities which decided (based on the option in existing IAS 31) to measure their investments in joint ventures at fair value through profit and loss. Under IAS 31, such entities were subject only to limited disclosure.

**Note to participants:**

Please implement the disclosure requirements in IFRS 12 to the sample of the joint arrangements you have selected to test implementation of IFRS 11 in Part A of this Questionnaire, and respond to the following questions.

**Section 1 Implementation and operational matters**

44 Did you have sufficient information (or access to information) to meet the disclosure requirements? If no, please provide a brief explanation to support your response.

Category of joint arrangement	Yes	No	N/A*
IFRS 11 joint operations (accounted for using proportionate consolidation under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

IFRS 11 joint operations (accounted for using equity method under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IFRS 11 joint ventures (accounted for using proportionate consolidation under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IFRS 11 joint ventures (accounted for using equity method under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Joint ventures measured at fair value through profit and loss (IAS 31 and IFRS 11)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

N/A – no joint arrangements identified in the selected sample that fall into this group.

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- 45 How would you rate the overall operational difficulty to apply the new requirements to arrangements classified in IFRS 11 as:

Category of joint arrangement	High	Moderate	Low	N/A*
IFRS 11 joint operations (accounted for using equity method under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IFRS 11 joint operations (accounted for using proportionate consolidation under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IFRS 11 joint ventures (accounted for using proportionate consolidation under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IFRS 11 joint ventures (accounted for using equity method under IAS 31)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Joint ventures measured at fair value through profit and loss (IAS 31 and IFRS 11)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

N/A – no joint arrangements identified in the selected sample that fall into this group.

If you indicate 'high', please explain such difficulty in more detail below.

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- 46 Do you find the aggregation relaxation (permitted for interests in similar entities, if the information is not obscured by the aggregation) in IFRS 12 useful to provide

some relief to the disclosure requirements for interests in joint ventures? If not, please explain.

Yes       No

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- 47 Will the period of time before the mandatory effective date of 1 January 2013 be sufficient for your organisation to implement the new requirements in IFRS 12? If not, please explain why and indicate the date, from which it would be feasible to implement.

Yes       No

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**Section 2 Impact in terms of costs and benefits of implementing the new disclosure requirements**

- 48 Based on the results of your analysis of IFRS 12, please indicate which are the main benefits of the new standard:

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- 49 Please provide a list of costs that you expect to incur and a quantitative estimate of an amount (e.g. a point estimate, a range of amounts or expressed as a percentage). If you are unable to make a quantitative estimate, please provide a narrative description of the expected effort:

Type	Estimated impact
<i>One-off costs</i>	
[ ]	[ ]
[ ]	[ ]
<i>Ongoing costs</i>	
[ ]	[ ]
[ ]	[ ]

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**PART C: OTHER MATTERS**

- 50 Please use this space to indicate and explain other areas or issues which you consider of interest which have not been included in this document, bearing in mind that the purpose of this document is focused on the operational aspects of implementing the new standards, and obtaining an estimate of the expected impact regarding related costs and benefits for preparers and not on discussing these standards from a technical accounting approach.

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**EFRAG contacts for this project:**

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