



International Accounting Standards Board®

Press Release

13 September 2007

IASB proposes improvements to the accounting for joint arrangements

The International Accounting Standards Board (IASB) has today published for public comment a proposal to improve the accounting for joint arrangements. ED 9 *Joint Arrangements* proposes a replacement to the existing standard IAS 31 *Interests in Joint Ventures*, and represents the first major revision to the standard since it was first issued in 1990.

The review also forms part of the IASB's short-term project with the US Financial Accounting Standards Board (FASB) to reduce differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP).

The main focus of the proposals is on the two aspects of the current accounting for joint arrangements that the IASB considers are an impediment to high quality reporting.

- The current accounting for joint arrangements follows the legal form in which the activities take place. This does not always reflect the contractual rights and obligations agreed to by the parties. Shifting the focus to these rights and obligations will provide a more realistic reflection of the joint arrangement in the financial reports of the parties involved.
- The existing standard gives preparers a choice when accounting for interests in jointly controlled entities, making it difficult to compare financial reports. ED 9 *Joint Arrangements* proposes to remove that choice by requiring parties to recognise both the individual assets to which they have rights and the liabilities for which they are responsible, even if the joint arrangement operates in a separate legal entity. If the parties only have a right to a share of the outcome of the activities their net interest in the arrangement will be recognised using the equity method.

The proposals are designed to provide users with more information about the operations an entity conducts through joint arrangements—including a description of the nature of joint arrangements and summarised financial information relating to its interests in joint ventures.

ED 9 *Joint Arrangements* is available for eIFRS subscribers from today and will be freely available on the Website from 27 September. It is open for comment until 11 January 2008.

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Notes for editors

History

ED 9 *Joint Arrangements* proposes changes to accounting for interests in joint arrangements, and would replace IAS 31 *Interests in Joint Ventures*. IAS 31 was published by the International Accounting Standards Committee (IASC), the IASB's predecessor body, in 1990. The requirements of IAS 31 have not changed to any great extent since it was first published in 1990.

What is a Joint Arrangement?

A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to that activity. Joint arrangements include joint assets, joint operations and joint ventures.

What was the purpose of a review of IAS 31?

The main aim of ED 9 *Joint Arrangements* is to remedy two aspects of IAS 31. The first is that the form of a joint arrangement is the main determinant of the accounting and the second is that there is a choice of accounting for jointly controlled entities. As well as improving the accounting for joint arrangements the Board took the opportunity to review and improve the requirements for disclosing information about joint arrangements, subsidiaries and associates.

Who will be affected by the proposals?

For the majority of entities the new standard is unlikely to reshape their balance sheet. This is because in most circumstances accounting for individual assets and liabilities gives the same outcome as proportionate consolidation.

If an entity has rights to individual assets and responsibility for liabilities (and related revenue and expenses) of a joint arrangement, the new standard will have little effect on its financial statements if that joint arrangement is not a legal entity or if it is a legal entity that was previously accounted for using proportionate consolidation. In a similar manner, if an entity has rights only to a share of the outcome of the activities of a joint arrangement, there will be little change if that joint arrangement is a legal entity and was previously accounted for using the equity method.

Where entities have been using proportionate consolidation and are recognising assets and liabilities in their financial statements even though they have no rights to the assets or responsibility for the liabilities, or where those entities that have rights to assets and responsibility for liabilities but are not recognising those rights and responsibilities because they are using the equity method of accounting then the change may be more significant.

Why do we need enhanced disclosure requirements?

Currently it can be difficult to tell the nature and extent of an entity's operations that it conducts through joint arrangements. As well as enhancing the disclosures about joint arrangements, the Board is also proposing amending its IFRSs on subsidiaries (IAS 27 *Consolidated and Separate Financial Statements*) and associates (IAS 28 *Investments in Associates*) to provide more consistent disclosure requirements across that range of investment types.

Are we adopting US GAAP with the reviewed IAS 31?

No. Whilst proposals in the exposure draft are consistent with those in US GAAP, differences remain because of industry specific guidance that exists in US literature for joint arrangements. IFRSs do not generally provide industry specific guidance for activities that span many sectors.

Printed copies of the proposed IFRS *Joint Arrangements* (ISBN 978-1-905590-37-7) will be available shortly, at £10, from the IASC Foundation Publications Department. Those wishing to subscribe to *eIFRSs* should visit the online shop at www.iasb.org or contact:

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About the IASB

The IASB was established in 2001 and is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation, an independent private sector, not-for-profit organisation. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that provide high quality transparent and comparable information in general purpose financial statements. In pursuit of this objective the IASB conducts extensive public consultations and seeks the co-operation of international and national bodies around the world. Its 14 members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. They are appointed by and accountable to the Trustees of the IASC Foundation, who are required to select the best available combination of technical expertise and diversity of international business and market experience.