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IPSAS 37

International Public Sector Accounting Standard™

Joint Arrangements

IPSASB

International Public
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IPSAS 37—JOINT ARRANGEMENTS

CONTENTS

	Paragraph
Objective	1–2
Scope	3–6
Definitions.....	7–8
Binding Arrangement	8
Joint Arrangements (see paragraphs AG2–AG33).....	9–22
Joint Control	12–18
Types of Joint Arrangement	19–22
Financial Statements of Parties to a Joint Arrangement	23–28
Joint Operations	23–26
Joint Ventures	27–28
Separate Financial Statements	29–30
Transitional Provisions	31–41
Joint Ventures—Transition from Proportionate Consolidation to the Equity Method.....	32–36
Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities.....	37–40
Transitional Provisions in an Entity’s Separate Financial Statements	41
Effective Date	42–43
Withdrawal and Replacement of IPSAS 8 (December 2006)	44
Appendix A: Application Guidance	
Appendix B: Amendments to Other IPSASs	
Basis for Conclusions	
Illustrative Examples	
Comparison with IFRS 11	

International Public Sector Accounting Standard 37, *Joint Arrangements*, is set out in paragraphs 1–44. All the paragraphs have equal authority. IPSAS 37 should be read in the context of its objective, the Basis for Conclusions, and the *Preface to International Public Sector Accounting Standards*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).
2. To meet the objective in paragraph 1, this Standard 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. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.**
4. **This Standard shall be applied by all entities that are a party to a joint arrangement.**
5. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
6. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that GBEs apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

Definitions

7. The following terms are used in this Standard with the meanings specified:

Binding arrangement: For the purposes of this Standard, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A **joint arrangement** is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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.

A **joint operator** is a party to a joint operation that has joint control of that joint operation.

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.

A **joint venturer** is a party to a joint venture that has joint control of that joint venture.

A **party to a joint arrangement** is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately. The following terms are defined in IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* or IPSAS 36, *Investments in Associates and Joint Ventures*: benefits, control, equity method, power, protective rights, relevant activities, separate financial statements and significant influence.

Binding Arrangement

8. Binding arrangements can be evidenced in several ways. A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements, either on their own, or in conjunction with contracts between the parties.

Joint Arrangements (see paragraphs AG2–AG33)

9. **A joint arrangement is an arrangement of which two or more parties have joint control.**
10. **A joint arrangement has the following characteristics:**
- (a) **The parties are bound by a binding arrangement (see paragraphs AG2–AG4).**
 - (b) **The binding arrangement gives two or more of those parties joint control of the arrangement (see paragraphs 12–18).**
11. **A joint arrangement is either a joint operation or a joint venture.**

Joint Control

12. **Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement.**
13. **An entity that is a party to an arrangement shall assess whether the binding 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 benefits from the arrangement (i.e., the relevant activities).**
14. 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.
15. 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.
16. An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement. This Standard 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.

17. **An entity will need to apply judgment 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 AG5–AG11).**
18. **If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.**

Types of Joint Arrangement

19. **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.**
20. **An entity applies judgment 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 or established by legislative or executive authority and, when relevant, other facts and circumstances (see paragraphs AG12–AG33).**
21. Sometimes the parties are bound by a framework agreement that sets up the general 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.
22. **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 (see paragraphs AG34–AG37)

Joint Operations

23. **A joint operator shall recognize 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.**
24. **A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSASs applicable to the particular assets, liabilities, revenues and expenses.**

25. 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 AG34–AG37.
26. **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 23–25 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 IPSASs applicable to that interest.**

Joint Ventures

27. **A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IPSAS 36, *Investments in Associates and Joint Ventures*, unless the entity is exempted from applying the equity method as specified in that Standard.**
28. **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 the IPSASs dealing with financial instruments, being IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with IPSAS 36.**

Separate Financial Statements

29. **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 23–25; and**
 - (b) **A joint venture in accordance with paragraph 12 of IPSAS 34.**
30. **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 26; and**
 - (b) **A joint venture in accordance with IPSAS 29, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 12 of IPSAS 34.**

Transitional Provisions

31. **Notwithstanding the requirements of paragraph 33 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, when this Standard is first applied, an entity need only present the quantitative information required by paragraph 33(f) of IPSAS 3, for the annual period immediately preceding the first annual period for which this Standard 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

32. When changing from proportionate consolidation to the equity method, an entity shall recognize 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 purchased goodwill arising from acquisition transactions (guidance on accounting for the acquisition of an entity and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and joint arrangements).
33. The opening balance of the investment determined in accordance with paragraph 32 is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraphs 43-48 of IPSAS 36 to the opening balance of the investment to assess whether the investment is impaired and shall recognize any impairment loss as an adjustment to accumulated surplus or deficit at the beginning of the immediately preceding period.
34. 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 recognize 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 recognize the corresponding liability but it shall adjust accumulated surplus or deficit at the beginning of the immediately preceding period. The entity shall disclose this fact, along with its cumulative unrecognized share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this Standard is first applied.
35. 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 32–36.
36. After initial recognition, an entity shall account for its investment in the joint venture using the equity method in accordance with IPSAS 36.

Joint Operations—Transition from the Equity Method to Accounting for Assets and Liabilities

37. 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, derecognize 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 41 of IPSAS 36 and recognize 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.
38. 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 binding 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.

39. 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 41 of IPSAS 36 and the net amount of the assets and liabilities, including any goodwill, recognized shall be:
- (a) Offset against any goodwill relating to the investment with any remaining difference adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is higher than the investment (and any other items that formed part of the entity's net investment) derecognized.
 - (b) Adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognized is lower than the investment (and any other items that formed part of the entity's net investment) derecognized.
40. An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted against accumulated surplus or deficit, at the beginning of the immediately preceding period.

Transitional Provisions in an Entity's Separate Financial Statements

41. An entity that, in accordance with paragraph 58 of IPSAS 6, *Consolidated and Separate Financial Statements*, was previously accounting in its separate financial statements for its interest in a joint operation as an investment using the equity method, at cost or in accordance with IPSAS 29 shall:
- (a) Derecognize the investment and recognize the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraphs 37-39.
 - (b) Provide a reconciliation between the investment derecognized, and the assets and liabilities recognized, together with any remaining difference adjusted in accumulated surplus or deficit, at the beginning of the immediately preceding period.

Effective Date

42. An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2017, it shall disclose that fact and apply IPSAS 34, IPSAS 35, IPSAS 36 and IPSAS 38, *Disclosure of Interests in Other Entities*, at the same time.
43. When an entity adopts the accrual basis IPSASs as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSASs), for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Withdrawal and Replacement of IPSAS 8 (December 2006)

44. This Standard supersedes IPSAS 8, *Interests in Joint Ventures* (December 2006). IPSAS 8 remains applicable until IPSAS 37 is applied or becomes effective, whichever is earlier.

Application Guidance

This Appendix is an integral part of IPSAS 37.

AG1. 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 IPSAS 37.

Joint Arrangements

Binding Arrangement (paragraph 8)

AG2. Consistent with the definition of binding arrangements in this Standard, this discussion of binding arrangements is also relevant to enforceable arrangements created by legislative or executive authority.

AG3. When joint arrangements are structured through a separate vehicle (see paragraphs AG19–AG33), the binding arrangement, or some aspects of the binding arrangement, will in some cases be incorporated in the articles, charter or by-laws of the separate vehicle.

AG4. The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding 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 binding arrangement establishes joint control of the arrangement (see paragraphs AG5–AG11).
- (d) The capital or other contributions required of the parties.
- (e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

Joint Control (paragraphs 12–18)

AG5. 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. IPSAS 35, *Consolidated Financial Statements*, 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 benefits from their involvement with the arrangement and have the ability to affect those benefits 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 benefits from the arrangement (i.e., the relevant activities), the parties control the arrangement collectively.

JOINT ARRANGEMENTS

- AG6. 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 judgment.
- AG7. Sometimes the decision-making process that is agreed upon by the parties in their binding 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 binding 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.
- AG8. In other circumstances, the binding 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 binding 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 binding 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 binding 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

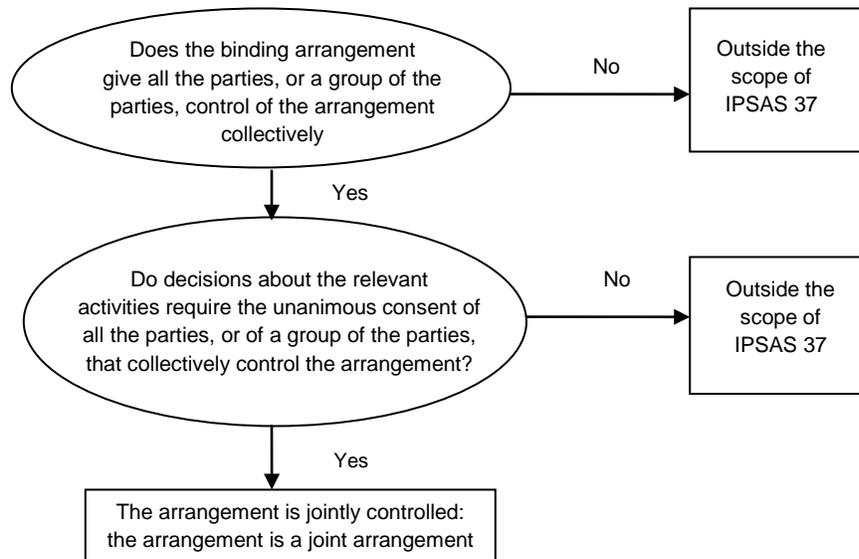
Assume an arrangement has three parties: A has 50 per cent of the voting rights in the arrangement and B and C each have 25 per cent. The binding arrangement between A, B and C specifies that at least 75 per cent of the voting rights are required to make decisions about the relevant activities of the 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 (i.e., either A and B or A and C). In such a situation, to be a joint arrangement the binding 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.

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 binding arrangement specifies that decisions about the relevant activities of the arrangement require both A and B agreeing.

- AG9. 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.
- AG10. A binding 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



- AG11. When an arrangement is outside the scope of IPSAS 37, *Joint Arrangements*, an entity accounts for its interest in the arrangement in accordance with relevant IPSASs, such as IPSAS 35, IPSAS 36, *Investments in Associates and Joint Ventures* or IPSAS 29, *Financial Instruments: Presentation*.

Types of Joint Arrangement (paragraphs 19–22)

- AG12. Joint arrangements are established for a variety of purposes (e.g., 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.
- AG13. 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.
- AG14. The classification of joint arrangements required by this Standard depends upon the parties' rights and obligations arising from the arrangement in the normal course of operations. This Standard 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 AG16–AG33 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

- AG15. As stated in paragraph AG14, 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 AG16–AG21).
 - (b) When the joint arrangement is structured through a separate vehicle:
 - (i) The legal form of the separate vehicle (see paragraphs AG22–AG24);
 - (ii) The terms of the binding arrangement (see paragraphs AG25–AG28); and
 - (iii) When relevant, other facts and circumstances (see paragraphs AG29–AG33).

Structure of the Joint Arrangement

Joint Arrangements not Structured Through a Separate Vehicle

- AG16. A joint arrangement that is not structured through a separate vehicle is a joint operation. In such cases, the binding 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.
- AG17. The binding 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 deliver services or manufacture a product together, with each party being responsible for specific areas and each using its own assets and incurring its own liabilities. The binding 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 recognizes in its financial statements the assets and liabilities used for the specific task, and recognizes its share of the revenues and expenses in accordance with the binding arrangement.

JOINT ARRANGEMENTS

AG18. 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 binding 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 recognizes its share of the output, revenues and expenses in accordance with the binding arrangement.

Joint Arrangements Structured through a Separate Vehicle

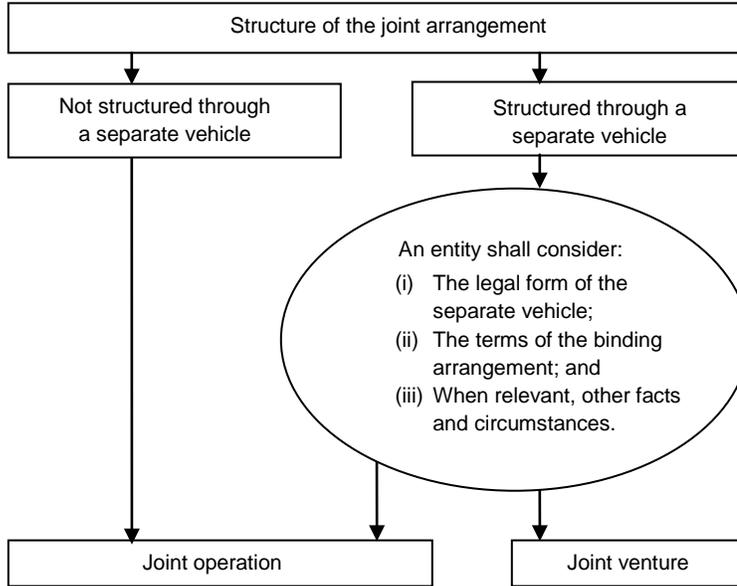
AG19. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation.

AG20. 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.

AG21. As stated in paragraph AG15, 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 binding 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 (i.e., the arrangement is a joint operation); or
- (b) Rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

Classification of a Joint Arrangement: Assessment of the Parties' Rights and Obligations Arising from the Arrangement



The Legal Form of the Separate Vehicle

- AG22. 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.
- AG23. 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 (i.e., 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 binding arrangement (see paragraphs AG25–AG28) and, when relevant, other facts and circumstances (see paragraphs AG29–AG33) can override the assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle.
- AG24. 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 (i.e., the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).

Assessing the Terms of the Binding Arrangement

- AG25. In many cases, the rights and obligations agreed to by the parties in their binding 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.
- AG26. In other cases, the parties use the binding 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.

Application Example
<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 binding 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 binding modifications to the features of a corporation can cause an arrangement to be a joint operation.</p>

- AG27. The following table compares common terms in binding arrangements of parties to a joint operation and common terms in binding arrangements of parties to a joint venture. The examples of the binding terms provided in the following table are not exhaustive.

JOINT ARRANGEMENTS

Assessing the Terms of the Binding Arrangement		
	Joint Operation	Joint Venture
The terms of the binding arrangement	The binding arrangement provides the parties to the joint arrangement with rights to the assets, and obligations for the liabilities, relating to the arrangement.	The binding arrangement provides the parties to the joint arrangement with rights to the net assets of the arrangement (i.e., 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 binding arrangement establishes that the parties to the joint arrangement share all interests (e.g., rights, title or ownership) in the assets relating to the arrangement in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	The binding 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 (i.e., no rights, title or ownership) in the assets of the arrangement.
Obligations for liabilities	The binding arrangement establishes that the parties to the joint arrangement share all liabilities, obligations, costs and expenses in a specified proportion (e.g., in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement that is directly attributed to them).	<p>The binding arrangement establishes that the joint arrangement is liable for the debts and obligations of the arrangement.</p> <p>The binding 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.</p>

JOINT ARRANGEMENTS

Assessing the Terms of the Binding Arrangement		
	Joint Operation	Joint Venture
	The binding arrangement establishes that the parties to the joint arrangement are liable for claims raised by third parties.	The binding 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.
Revenues, expenses, surplus or deficit	The binding 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 binding 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 surplus or deficit 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.	The binding arrangement establishes each party's share in the surplus or deficit relating to the activities of the arrangement.
Guarantees	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).	

AG28. When the binding 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 AG29–AG33) for the purposes of classifying the joint arrangement.

Assessing Other Facts and Circumstances

AG29. When the terms of the binding 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.

AG30. A joint arrangement might be structured in a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The binding 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.

AG31. 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 service potential or 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.

AG32. 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 binding 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 binding arrangement indicate that the arrangement is a joint venture.

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:

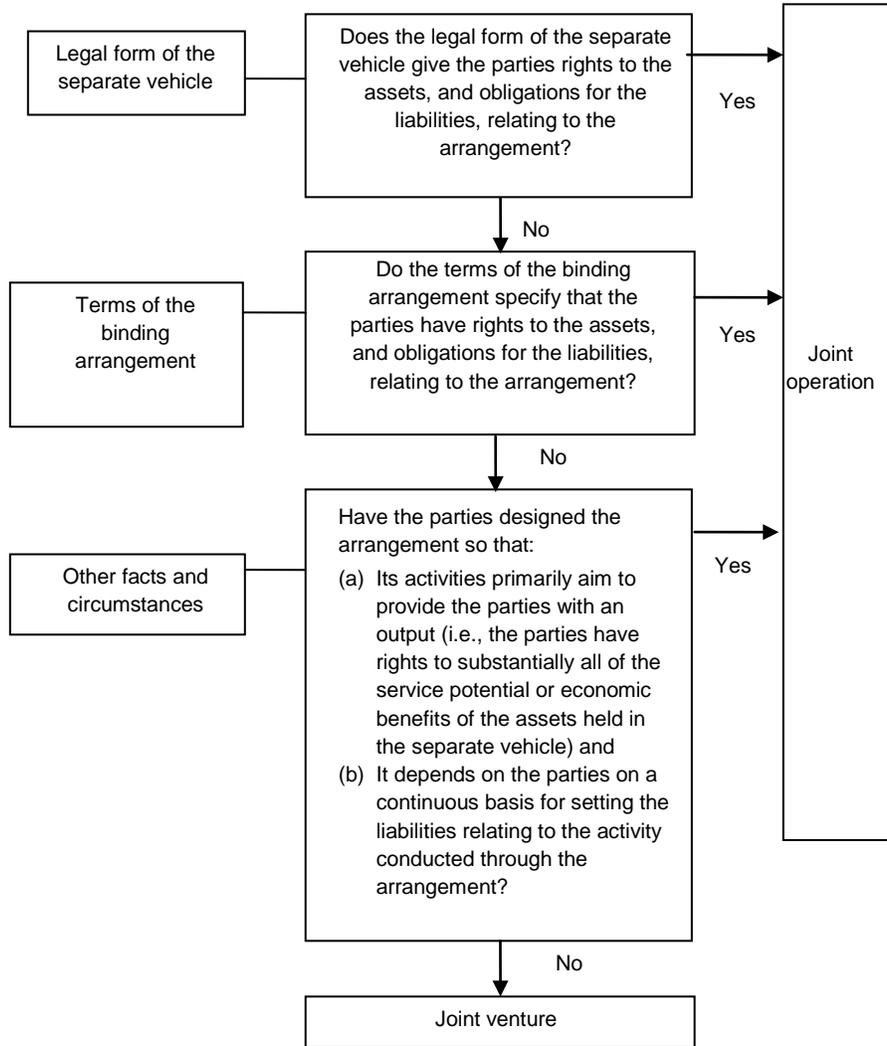
- The obligation of the parties to purchase all the output produced by entity C reflects the exclusive dependence of entity C upon the parties for the generation of cash flows and, thus, the parties have an obligation to fund the settlement of the liabilities of entity C.
- The fact that the parties have rights to all the output produced by entity C means that the parties are consuming, and therefore have rights to, all the service potential or 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 binding 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.

AG33. 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 23–28)

Accounting for Sales or Contributions of Assets to a Joint Operation

- AG34. 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 recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.
- AG35. When such transactions provide evidence of a reduction in the net realizable 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 recognized fully by the joint operator.

Accounting for Purchases of Assets from a Joint Operation

- AG36. 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 recognize its share of the gains and losses until it resells those assets to a third party.
- AG37. When such transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognize its share of those losses.

Amendments to Other IPSASs

IPSAS 2, *Cash Flow Statements*

Paragraphs 47 and 48 are amended, paragraph 61(b) is deleted and paragraph 63D added as follows:

47. When accounting for an investment in an associate, a joint venture, or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.
48. ~~An entity that reports its interest in a jointly controlled entity using proportionate consolidation includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows.~~ An entity that reports its such an interest in an associate or a joint venture using the equity method includes in its cash flow statement ~~(a) the cash flows in respect of its investments in the associate or joint venture, jointly controlled entity, and (b) distributions and other payments or receipts between it and the associate or joint venture jointly controlled entity.~~
61. Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include:
- (a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
 - (b) ~~[Deleted]The aggregate amounts of the cash flows from each of operating, investing, and financing activities related to interests in joint ventures reported using proportionate consolidation; and~~
 - (c) The amount and nature of restricted cash balances.

63D. IPSAS 35, *Consolidated Financial Statements* and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 47 and 48, added paragraphs 52A and 52B and deleted paragraph 61(b). An entity shall apply those amendments when it applies IPSAS 35, and IPSAS 37.

IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 3, 10, 13, 21, 38, 50 51, 55, 57, 58 are amended and paragraphs 57A–57D and 71A added as follows:

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:
 - (a) In accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IPSAS 29, *Financial Instruments: Recognition and Measurement*;
 - (b) In translating the financial performance and financial position of foreign operations that are included in the financial statements of the entity by consolidation, ~~proportionate consolidation,~~ or by the equity method; and
 - (c) In translating an entity's financial performance and financial position into a presentation currency.

10. **The following terms are used in this Standard with the meanings specified:**

...

Foreign operation is an entity that is a controlled entity, associate, joint venture arrangement, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate, or joint ~~venture arrangement~~):

...

21. Many reporting entities comprise a number of individual entities (e.g., an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ~~ventures~~ arrangements.

38. When a monetary item forms part of a reporting entity's net investment in a foreign operation, and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 32. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 32. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's separate financial statements and in the foreign operation's individual financial statements in accordance with paragraph 32. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (i.e., financial statements in which the foreign operation is consolidated, ~~proportionately consolidated,~~ or accounted for using the equity method).

50. Paragraphs 51–56, in addition to paragraphs 43–49, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency, so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, ~~proportionate consolidation~~, or the equity method.
51. The incorporation of the financial performance and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 35, Consolidated Financial Statements ~~IPSAS 6 and IPSAS 8, Interests in Joint Ventures~~.)
55. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS ~~356~~, The same approach is used in applying the equity method to associates and joint ventures, ~~and in applying proportionate consolidation to joint ventures~~ in accordance with IPSAS ~~367~~, Investments in Associates and Joint Ventures, ~~and IPSAS 8~~.

Disposal or Partial Disposal of a Foreign Operation

57. **On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation and accumulated in a deferred in the separate component of net assets/equity relating to that foreign operation shall be reclassified from net assets/equity to recognized in surplus or deficit (as a reclassification adjustment) when the gain or loss on disposal is recognized (see IPSAS 1, Presentation of Financial Statements).**
- 57A. In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:
- (a) When the partial disposal involves the loss of control of a controlled entity that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former controlled entity after the partial disposal; and
 - (b) When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.
- 57B. On disposal of a controlled entity that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be transferred directly to accumulated surplus/deficit.
- 57C. **On the partial disposal of a controlled entity that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences accumulated in a separate category of net assets/equity to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall transfer to accumulated surplus/deficit only the proportionate share of the cumulative amount of the exchange differences accumulated in net assets/equity.**
- 57D. A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph 57A that are accounted for as disposals.
58. An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital, or abandonment of all or part of that entity. The

payment of a dividend or similar distribution is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. ~~In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss.~~ A writedown of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the entity holding the interest, does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a writedown.

71A. IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 3(b), 10, 13, 21, 22, 38, 47, 50 to 51, 53, 55, and 57 to 58 and added paragraphs 57A to 57D. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

IPSAS 9, Revenue from Exchange Transactions

Paragraph 10(b) is amended and paragraph 42B added as follows:

10. This Standard does not deal with revenues arising from:

- (a) Lease agreements (see IPSAS 13, *Leases*);
- (b) Dividends or similar distributions arising from investments that are accounted for under the equity method (see IPSAS ~~367~~, *Investments in Associates and Joint Ventures*);

....

42B. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 10(b). An entity shall apply that amendment when it applies IPSAS 37.

IPSAS 18, Segment Reporting

Paragraphs 27 and 32 are amended and paragraph 77A added as follows:

27. The following additional terms are used in this Standard with the meanings specified:

Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. ~~Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8, *Interests in Joint Ventures*.~~

~~Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~

~~Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~

~~Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.~~

32. Governments and their agencies may enter into arrangements with private sector entities for the delivery of goods and services, or to conduct other activities. In some jurisdictions, these arrangements take the form of a joint venture or an investment in an associate that is accounted for

by the equity method of accounting. Where this is the case, segment revenue will include the segment's share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue, and it can be directly attributed or reliably allocated to the segment on a reasonable basis. ~~In similar circumstances, segment revenue and segment expense will include the segment's share of revenue and expense of a jointly controlled entity that is accounted for by proportionate consolidation.~~

77B. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraphs 27 and 32. An entity shall apply those amendments when it applies IPSAS 37.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 37 is amended and paragraph 111B added as follows:

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint ~~venture~~ arrangement debt, that part of the obligation that is to be met by other joint ~~venture~~ arrangement participants is treated as a contingent liability. The entity recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

111B. IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 37. An entity shall apply that amendment when it applies IPSAS 37.

IPSAS 20, *Related Party Disclosures*

Paragraphs 4 and 15 are amended and paragraph 42A added as follows:

4. **The following terms are used in this Standard with the meanings specified:**

...

Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
- (b) Associates (see IPSAS 36Z, *Investments in Associates and Joint Ventures*);

...

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 36Z.

15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures ~~entities subject to joint control~~.

42A. IPSAS 35, Consolidated Financial Statements, and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 4 and 15. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraph 13 is amended and paragraph 82C added as follows:

13. Investments in:
-
- (b) Associates, as defined in IPSAS ~~367~~, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS 37, *Joint Arrangements*;
-

82C. IPSAS 35, Consolidated Financial Statements, and IPSAS 37 issued in January 2015, amended paragraph 13. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

IPSAS 26, Impairment of Cash-Generating Assets

Paragraph 12 is amended and paragraph 47A added as follows:

12. Investments in:
- ...
- (b) Associates, as defined in IPSAS ~~367~~, *Investments in Associates and Joint Ventures*; and
- (c) Joint arrangements ~~ventures~~, as defined in ~~IPSAS 8, *Interests in Joint Ventures*~~ IPSAS 37, *Joint Arrangements*;

47A. IPSAS 35, Consolidated Financial Statements, and IPSAS 37 issued in January 2015, amended paragraph 12. An entity shall apply those amendment when it applies IPSAS 35 and IPSAS 37.

IPSAS 28, Financial Instruments: Presentation

Paragraph 3(a) is amended and paragraph 60A added as follows:

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to all types of financial instruments except:
- (a) Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 356,

~~Consolidated and Separate Financial Statements, or IPSAS 367, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 ~~IPSAS 6, IPSAS 7 or IPSAS 8~~ require or permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; ...

60A. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

IPSAS 29 Financial Instruments: Recognition and Measurement

Paragraph 2(a) is amended and paragraph 125B added as follows:

2. This Standard shall be applied by all entities to all types of financial instruments, except:
 - (a) Those interests in controlled entities, associates and joint ventures that are accounted for ~~under in accordance with IPSAS 34, Separate Financial Statements, IPSAS 356, Consolidated and Separate Financial Statements, or IPSAS 367, Investments in Associates and Joint Ventures, or IPSAS 8, Interests in Joint Ventures.~~ However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture in accordance with some or all of the requirements of this Standard. However, entities shall apply this Standard to an interest in a controlled entity, associate, or joint venture that according to IPSAS 6, IPSAS 7, or IPSAS 8 is accounted for under this Standard...

125B. IPSAS 35 and IPSAS 37, Joint Arrangements, issued in January 2015, amended paragraphs 2(a), 17, 89, AG2, AG14, AG51–53 and C2. An entity shall apply those amendments when it applies IPSAS 35 and IPSAS 37.

In Appendix A paragraphs AG2 and AG14 are amended as follows:

Investments in Controlled Entities, Associates, and Joint Ventures

AG2. Sometimes, an entity makes what it views as a “strategic investment” in equity instruments issued by another entity, with the intention of establishing or maintaining a long-term operating relationship with the entity in which the investment is made. The investor or joint venturer entity uses IPSAS 367, to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses IPSAS 8 to determine whether proportionate consolidation or the equity method is appropriate for such an investment.~~ If neither the equity method ~~nor proportionate consolidation~~ is not appropriate, the entity applies this Standard to that strategic investment.

AG14. The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through surplus or deficit only if it meets the principle in paragraph 10(b)(ii).

- (a) The entity is a venture capital organization, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or similar distributions and changes in fair value. ~~IPSAS 367 and IPSAS 8 allows~~ such investments to be excluded from their scope provided they are

measured at fair value through surplus or deficit in accordance with this Standard. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of ~~IPSAS 367 or~~ IPSAS 8.

In Appendix C paragraph C2 is amended as follows:

- C2. Hedge accounting of the foreign currency risk arising from a net investment in a foreign operation will apply only when the net assets of that foreign operation are included in the financial statements. This will be the case for consolidated financial statements, financial statements in which investments such as associates or joint ventures are accounted for using the equity method, ~~and financial statements in which venturers' interests in joint ventures are proportionately consolidated~~ and financial statements that include a branch or a joint operation as defined in IPSAS 37. The item being hedged with respect to the foreign currency risk arising from the net investment in a foreign operation may be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign operation.

IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 3(a) is amended and paragraph 52A added as follows:

3. This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) Those interests in controlled entities, associates, or joint ventures that are accounted for in accordance with IPSAS 34, *Separate Financial Statements*, IPSAS 356, *Consolidated and Separate Financial Statements*, or IPSAS 367, *Investments in Associates and Joint Ventures*, or IPSAS 8, *Interests in Joint Ventures*. However, in some cases, IPSAS 34, IPSAS 35 or IPSAS 37 require or permit IPSAS 6, IPSAS 7, *Investments in Associates* or IPSAS 8 permits an entity to account for an interest in a controlled entity, associate, or joint venture using IPSAS 29; in those cases

52A. IPSAS 35 and IPSAS 37 issued in January 2015, amended paragraph 3(a). An entity shall apply that amendment when it applies IPSAS 35 and IPSAS 37.

IPSAS 31, *Intangible Assets*

Paragraph 6(d) is amended and paragraph 132A added as follows:

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:
- (a) ...
- (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 356, *Consolidated and Separate Financial Statements* and IPSAS 367, *Investments in Associates and Joint Ventures*, and IPSAS 8, *Interests in Joint Ventures*; and....

132A. IPSAS 35 and IPSAS 37, *Joint Arrangements*, issued in January 2015, amended paragraph 6(d). An entity shall apply that amendment when it applies IPSAS 35, and IPSAS 37.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37.

Objective

BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 37. As this Standard is based on IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014), issued by the IASB, the Basis for Conclusions outlines only those areas where IPSAS 37 departs from the main requirements of IFRS 11.

Overview

BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 51, *Joint Arrangements*, was based on IFRS 11, *Joint Arrangements*, having regard to the relevant public sector modifications in IPSAS 8, *Interests in Joint Ventures*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 37. These new IPSASs supersede IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8.

Classification of Joint Arrangements

BC3. IPSAS 37 classifies joint arrangements as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets. This differs from IPSAS 8 which referred to three types of arrangements, being jointly controlled entities, jointly controlled operations and jointly controlled assets. The IPSASB agreed that the classification of joint arrangements in IPSAS 37 should be consistent with IFRS 11.

Elimination of Accounting Option

BC4. IPSAS 37 requires that a joint venturer account for its interest in a joint venture using the equity method. Previously IPSAS 8 permitted jointly controlled entities to be accounted for using either the equity method or proportionate consolidation. The IPSASB acknowledged the IASB's rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11.

BC5. The IASB's reasons for removing proportionate consolidation as a method for accounting for interests in joint ventures included the following:

- (a) 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.
- (b) The approach in IFRS 11 is consistent with the IASB's view of what constitutes the economic substance of an entity's interests in joint arrangements.
- (c) IFRS 11 will require consistent accounting for arrangements with similar rights.

JOINT ARRANGEMENTS

- (d) The IASB did not consider that the elimination of proportionate consolidation would cause a loss of information for users of financial statements (having regard to the disclosure requirements in IFRS 12, *Disclosure of Interests in Other Entities*).

BC6. The IPSASB took the view there were no public sector differences that warranted a different approach to that taken by the IASB.

Acquisition of an Interest in a Joint Operation

BC7. At the time that IPSAS 37 was being developed, the IASB sought feedback on proposals to amend IFRS 11 by adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, as defined in IFRS 3, *Business Combinations*. The IASB issued *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) in May 2014. The IPSASB agreed not to incorporate such guidance in IPSAS 37 on the grounds that it would be more appropriate to consider such guidance in the context of drafting standards-level requirements for public sector combinations.

ILLUSTRATIVE EXAMPLES

CONTENTS

	Paragraph
Construction Services	IE2–IE8
Service Centre Operated Jointly	IE9–IE13
Joint Provision of Assisted Living Services	IE14–IE20
Joint Manufacturing and Distribution of a Product	IE21–IE35
Bank Operated Jointly	IE36–IE40
Oil and Gas Exploration, Development and Production Activities	IE41–IE50
Liquefied Natural Gas Arrangement	IE51–IE59

Illustrative Examples

These examples accompany, but are not part of, IPSAS 37.

IE1. These examples portray hypothetical situations illustrating the judgments that might be used when applying IPSAS 37 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 IPSAS 37.

Example 1 – Construction Services

IE2. A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is government owned. They set up a binding 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 binding 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. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the government at that point.

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 binding 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 surplus or deficit 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 a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the 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 (i.e., 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 binding 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. It is not a service concession arrangement.

- IE8. A and B each recognize in their financial statements their share of the assets (e.g., property, plant, and equipment, accounts receivable) and their share of any liabilities resulting from the arrangement (e.g., accounts payable to third parties) on the basis of their agreed participation share. Each also recognizes its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

Example 2 – Service Centre Operated Jointly

- IE9. Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating a joint service center. The binding 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 allocation of office space to services, managing the car park, maintaining the center and its equipment, such as lifts, building the reputation of the center and managing the client base for the center.
- IE10. The terms of the binding arrangement are such that:
- (a) Entity X owns the service center. The binding arrangement does not specify that the parties have rights to the service center.
 - (b) 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.
 - (c) The parties have the right to sell or pledge their interests in entity X.
 - (d) Each party pays for its share of expenses for operating the service 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 (i.e., 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 binding 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 binding 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 service potential or 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 recognize their rights to the net assets of entity X as investments and account for them using the equity method.

Example 3 – Joint Provision of Assisted Living Services

- IE14. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. Entity X and entity Y establish a separate company (entity Z). The legal form of the company confers the rights to the assets and obligations for liabilities to the company itself. The agreement between entity X and entity Y requires all decisions be made jointly. The agreement also confirms:
- (a) Entity X will provide the assisted living services. Entity Y will construct the premises.
 - (b) The assets of the arrangement are owned by entity Z, the company. Neither party will be able to sell, pledge, transfer or otherwise mortgage the assets of entity Z.
 - (c) The liability of the parties is limited to any unpaid capital of entity Z.
 - (d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity Z.
 - (d) Profits of entity Z will be distributed to entity X and entity Y 40:60, being the parties' respective interests in the arrangement.

Analysis

- IE15. The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e., 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 binding 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 binding arrangement establish that the parties have rights to the net assets of entity Z.
- IE16. 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 service potential or economic benefits of the assets relating to the arrangement, or that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.
- IE17. The parties recognize their rights to the net assets of entity Z as investments and account for them using the equity method.

Variation

- IE18. A public sector health care provider (entity X) and a large property developer (entity Y) enter into an agreement to work together to provide assisted living services for the elderly. The agreement between entity X and entity Y requires all decisions to be made jointly. The agreement confirms:
- (a) Entity X will supply operational assets including office equipment, motor vehicles and furniture and fittings for the assisted living premises.
 - (b) Entity Y will construct the premises and will continue to own the premises. Entity Y will be responsible for the ongoing maintenance of the premises. Entity Y cannot sell the premises without first offering entity X the right to purchase the premises. Entity Y is entitled to 100% of any gain on eventual sale of the premises.
 - (c) The services will be delivered through a new entity, entity Z, established for this purpose.
 - (d) Each party will pay for 50% of the expenses for operating the services.
 - (e) Any profits from providing the assisted living services will be shared equally between entity X and entity Y.
 - (f) Entity X will be responsible for managing staff and for any liabilities arising from personal grievance claims and health and safety issues.
 - (g) Entity Y will be responsible for any liabilities to make good any defects in the premises or alterations to the premises required to meet health and safety codes and changes in those codes.

Analysis of Variation

- IE19. Although the services are delivered through a separate vehicle, entity X and entity Y continue to own the assets used to provide the services. The joint arrangement is a joint operation.
- IE20. Entity X and entity Y each recognize in their financial statements their own assets and liabilities. They also recognize their share of the revenue and expenses resulting from the provision of assisted living services through entity Z.

Example 4 – Joint Manufacturing and Distribution of a Product

- IE21. Entities 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.
- IE22. 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 (i.e., 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

JOINT ARRANGEMENTS

exclusively for the distribution of product P as described below. Neither the framework agreement nor the binding 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 (i.e., 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 binding 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.

IE23. 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

IE24. 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.

IE25. 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 binding 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 service potential or 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 fulfill 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

JOINT ARRANGEMENTS

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.

- IE26. 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 binding 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.
- IE27. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or 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.
- IE28. A and B each recognize in their financial statements their share of the assets (e.g., property, plant and equipment, cash) and their share of any liabilities resulting from the manufacturing arrangement (e.g., accounts payable to third parties) on the basis of their ownership interest in entity M. Each party also recognizes 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.
- IE29. The parties recognize their rights to the net assets of the distribution arrangement as investments and account for them using the equity method.

Variation

- IE30. 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.
- IE31. 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.
- IE32. 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 of Variation

- IE33. The variation has affected neither the legal form of the separate vehicle in which the manufacturing activity is conducted nor the binding 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.
- IE34. The variation has no effect on the classification of the distribution arrangement as a joint venture.

- IE35. The parties recognize 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 5 – Bank Operated Jointly

- IE36. Bank A, a government owned bank, and bank B, a privately owned bank, (the parties) agreed to combine certain corporate, investment banking, asset management and service 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 improve its profitability through an enlarged offering of products and services. Bank B expects the arrangement to reinforce its offering in financial savings and market products.
- IE37. The main feature of bank C's legal form is that it causes the separate vehicle to be considered in its own right (i.e., 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 agreement between bank A and bank B establishes joint control of the activities of bank C.
- IE38. 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 honors 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

- IE39. 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 binding 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.
- IE40. Both banks A and B recognize their rights to the net assets of bank C as investments and account for them using the equity method.

Example 6 – Oil and Gas Exploration, Development and Production Activities

- IE41. Entities 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 (i.e., 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).

JOINT ARRANGEMENTS

- IE42. 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).
- IE43. The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarized below.

Agreement

- IE44. The board of entity H consists of a director from each party. Each party has a 50 per cent holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

- IE45. 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.
- IE46. The Operating Committee approves the budgets and work programs 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 programs.
- IE47. 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 holding 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 (e.g., the permits, rehabilitation liabilities, any royalties and taxes payable);
 - (b) The production obtained; and
 - (c) All costs associated with all work programs.
- IE48. The costs incurred in relation to all the work programs 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

- IE49. 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 (e.g., exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g., all costs and obligations arising from the work programs) that are held in entity H. The joint arrangement is a joint operation.
- IE50. Both entity A and entity B recognize 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 recognizes its share of the revenue (from the sale of their share of the production) and its share of the expenses.

Example 7 – Liquefied Natural Gas Arrangement

- IE51. Entity A owns an undeveloped gas field that contains substantial gas resources. Entity 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.
- IE52. Entity A enters into a joint arrangement with entity B in order to develop and operate the gas field and the LNG facility. Under that arrangement, entities 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 (i.e., 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).
- IE53. The binding arrangement between the parties specifies that:
- (a) Entities 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.
 - (b) Day-to-day management of the gas field and LNG facility, including development and construction activities, will be undertaken by the staff of entity 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.
 - (c) 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.
 - (d) Entities A and B have equal shares in the surplus from the activities carried out in the arrangement and, as such, are entitled to equal shares of any dividends or similar distributions made by entity C.
- IE54. The binding arrangement does not specify that either party has rights to the assets, or obligations for the liabilities, of entity C.
- IE55. 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
- IE56. The lending syndicate provides entity C with a CU700 million loan. The arrangement specifies that the syndicate has recourse to entities 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 entities 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 entities A and B, the syndicate maintains protection against default by entity C by taking a lien on the LNG facility.

¹ In this example monetary amounts are denominated in 'currency units (CU)'.

Analysis

- IE57. 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 binding 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 (i.e., entities 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 (i.e., the loan is a liability of entity C). Entities A and B have separate liabilities, which are their guarantees to repay that loan if entity C defaults during the development and construction phase.
- IE58. There are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or 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.
- IE59. The parties recognize their rights to the net assets of entity C as investments and account for them using the equity method.

Comparison with IFRS 11

IPSAS 37, *Joint Arrangements*, is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 37 and IFRS 11 are as follows:

- Commentary additional to that in IFRS 11 has been included in IPSAS 37 to clarify the applicability of the Standard to accounting by public sector entities.
- IPSAS 37 uses different terminology, in certain instances, from IFRS 11. The most significant examples are the use of the terms “controlling entity”, “surplus or deficit” and “accumulated surplus or deficit” in IPSAS 37. The equivalent terms in IFRS 11 are, “parent,” “profit or loss” and “retained earnings.”
- IPSAS 35 defines the term “binding arrangement”. This term is broader than the term “contractual arrangement”, which is used in IFRS 11.
- IPSAS 37 does not provide guidance on the allocation of goodwill to joint ventures or on how to account for the acquisition of an interest in a joint operation that constitutes a business. Such guidance is included in IFRS 11.
- IPSAS 37 contains additional illustrative examples that reflect the public sector context.

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**International Public
Sector Accounting
Standards Board®**

529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org