

TREASURY ANALYSIS - INTERNATIONAL ACCOUNTING STANDARDS

AASB 131 “Interests in Joint Ventures” replaces AAS 19/AASB 1006 “Interests in Joint Ventures”

Major impacts of changes

- A different definition of joint control under AASB 131 may result in a smaller number of arrangements meeting the requirements for a joint venture.
- There are additional disclosure requirements.

Key features of Standard

- AASB 131 substantially replicates the requirements of AAS 19/AASB 1006, except for the areas discussed under “main differences” below.

Main differences compared to current Australian requirements

- Both AASB 131 and AASB 1006 define a joint venture as a contractual arrangement subject to “joint control”. However, under AASB 131, “joint control” exists only where the strategic financial and operating decisions of the venture require unanimous consent (para 3). AASB 1006 (para 12.1.1) required two or more parties to have the capacity to dominate all major decisions for there to be “joint control”. As a result, AASB 131 will apply to fewer joint venture arrangements than AASB 1006.
- Under AASB 131, an investor in a joint venture that has significant influence but not joint control applies AASB 128 *Investments in Associates* or, if it has neither joint control nor significant influence, it applies AASB 139 *Financial Instruments; Recognition and Measurement*. Previously, investments in joint ventures that have neither joint control nor significant influence were outside the scope of AASB 1006 and therefore, such investments were accounted for under AASB 1041 *Revaluation of Non-Current Assets*.
- AASB 131 identifies three types of joint ventures: jointly controlled entities, jointly controlled operations and jointly controlled assets. AASB 1006 identified only two types: joint venture entities and joint venture operations. AASB 131 jointly controlled operations and jointly controlled assets are comparable to joint venture operations in AASB 1006. The accounting treatment for the various types of joint ventures is similar under both standards.
- Jointly controlled entities apply the equity method of accounting under both AASB 131 and AASB 1006. However, AASB 131 excludes those jointly controlled entities where:
 - the investor is in the business of investment; eg venture capital organisations, mutual funds and unit trusts. These are accounted for under AASB 139 *Financial Instruments; Recognition and Measurement* (para 1)
 - the interest is classified as “held for sale” in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (para 2) or
 - the venturer is itself a subsidiary and the owners do not object to the venturer not applying the equity method; the venturer’s debt or equity instruments are not publicly traded; the venturer did not propose to issue any class of instruments in a public market; and the parent produces consolidated financial reports that comply with Australian equivalents to IFRSs (para 2)
 AASB 1006 did not exclude these entities.
- AASB 131 requires interests in jointly controlled entities using the equity method to be classified as non-current assets (para 57.4). AASB 1006 did not include this requirement.
- AASB 131 (paras Aus 57.1-57.3) requires extensive disclosures for jointly controlled entities not required by AASB 1006, including:
 - Fair value of interests in joint ventures if there are published price quotations
 - Nature and extent of any significant restrictions
 - Unrecognised share of losses, for the period and cumulatively if recognition is discontinued
 - Reporting dates when they are different and the reason for using a different reporting date

Impact on the public sector

- No differential impact.
- Under GFS, joint ventures that are not traded in an active market are recognised at net asset value (different to the AASB 131 approach).

Policy and Implementation issues (see attached)

- AASB 1 *First Time Adoption of Australian International Financial Reporting Pronouncements* provides three alternatives for first time adoption of AASB 131 including an option not to apply AASB 131 retrospectively. Treasury is likely to mandate that agencies do not apply AASB 131 retrospectively.
- Agencies need to review joint venture agreements and determine whether any change in accounting or disclosure is required.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES
AASB 131 “INTERESTS IN JOINT VENTURES”
TREASURY & AGENCIES

	Issue	Treasury Policy		System/ Implementation Issue	Mandate Options for GFS Harmonisation	Budget / Total State Sector Issues
		Mandate Option	Additional Guidance			
1	First time adoption – may elect not to apply AASB 131 retrospectively to past acquisitions of interests in joint ventures	✓ Agencies not to apply AASB 131 retrospectively				✓
2	Agencies to review joint venture agreements to determine whether any change in accounting or disclosure is required.			✓		✓