

Joint Arrangements – Classification of joint arrangements: the assessment of ‘other facts and circumstances’

In May 2014, the Interpretations Committee published an agenda decision in the IFRIC Update with regard to an issue of how an assessment of ‘other facts and circumstances’ as noted in paragraph 17 of IFRS 11 should be performed. The Interpretations Committee considered whether the assessment of other facts and circumstances should be undertaken with a view only towards whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities, or whether that assessment should also consider the design and purpose of the joint arrangement, the entity’s business needs and the entity’s past practices. The Interpretations Committee noted that paragraph 14 of IFRS 11 requires the classification of a joint arrangement as a joint operation or a joint venture to depend on each party’s rights to the assets and obligations for the liabilities of the joint arrangement, and that the rights and obligations are enforceable. The Interpretations Committee also noted that paragraph B30 of IFRS 11 explains that the assessment of other facts and circumstances would lead to the joint arrangement being classified as a joint operation when those other facts and circumstances give each party both rights to the assets, and obligations for the liabilities, relating to the arrangement.

On the basis of these observations, the Interpretations Committee noted that when each party to a joint arrangement meets the criteria and therefore has both rights to the assets of the joint arrangement and obligations for the liabilities of the joint arrangement through other facts and circumstances, a joint arrangement structured through a separate vehicle is a joint operation. Consequently, the Interpretations Committee observed that, in order to classify the joint arrangement as a joint operation as a result of assessing other facts and circumstances, it is necessary to demonstrate that: (a) each party to the joint arrangement has rights and obligations relating to economic benefits of the assets of the arrangement; and (b) each party is obliged to provide cash to the arrangement through enforceable obligations, which is used to settle the liabilities of the joint arrangement on a continuous basis. *Implication of ‘economic substance’* Some members of the Interpretations Committee observed that the concept of ‘economic substance’ may not be consistently understood or applied in practice with regard to the assessment of other facts and circumstances.