PROPOSED FINANCIAL REPORTING STANDARD	ED 9

Exposure Draft

ED 9 JOINT ARRANGEMENTS

Comments to be received by 11 January 2008

This exposure draft (ED) is a proposed Financial Reporting Standard on *Joint Arrangements* which will supersede existing standard FRS 31 *Interests in Joint Ventures*.

This ED should be read in the context of the Preface to Financial Reporting Standards.

This ED is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of the ASC.

Since this ED may be modified as a result of comments received, the ASC would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **11 January 2008**, preferably by email to: MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry Of Finance
100 High Street #10-01
The Treasury
Singapore 179434

CONTENTS

Invitation to comment

The Accounting Standards Council (ASC) invites comments on any aspect of the Exposure Draft of its proposed FRS *Joint Arrangements.* It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated,

(b) indicate the specific paragraph or paragraphs to which the comments relate,

(c) contain a clear rationale, and

(d) describe any alternative the Council should consider.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues.

The Council will consider all comments received in writing by **11 January 2008**. In considering the comments, the Council will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Question 1 – Definitions and terminology

The exposure draft proposes that the FRS should be applied to arrangements in which decisions are shared by the parties to the arrangement. The exposure draft identifies three types of joint arrangement—joint operations, joint assets and joint ventures. A party to an arrangement may have an interest in a joint operation or joint asset, as well as an interest in a joint venture. Joint ventures are subject to joint control (see paragraphs 3–6 and 8–20 and Appendix A of the draft FRS and paragraphs BC16–BC18 of the Basis for Conclusions).

Question 1: Do you agree with the proposal to change the way joint arrangements are described? If not, why?

Questions 2 and 3 – Accounting for joint arrangements

The exposure draft proposes:

- that the form of the arrangement should not be treated as the most significant factor in determining the accounting.

- that a party to a joint arrangement should recognise its contractual rights and obligations (and the related income and expenses) in accordance with applicable FRSs.

- that a party should recognise an interest in a joint venture (ie an interest in a share of the outcome generated by the activities of a group of assets and liabilities subject to joint control) using the equity method. Proportionate consolidation would not be permitted.

(See paragraphs 3–7 and 21–23 of the draft FRS and paragraphs BC5–BC15 of the Basis for Conclusions.)

Question 2: Do you agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangement? If so, do you think that the proposals in the exposure draft are consistent with and meet this objective? If not, why? What would be more appropriate?

Question 3: Do you agree that proportionate consolidation should be eliminated, bearing in mind that a party would recognise assets, liabilities, income and expenses if it has contractual rights and obligations relating to individual assets and liabilities of a joint arrangement? If not, why?

Questions 4–6 – Disclosure

The exposure draft proposes:

- to require an entity to describe the nature of operations it conducts through joint arrangements (see paragraph 36 of the draft FRS and paragraph BC22 of the Basis for Conclusions).
- to align the disclosures required for joint ventures with those required for associates in FRS 28 *Investments in Associates* (see paragraphs 39–41 of the draft FRS and paragraph BC23 of the Basis for Conclusions).
- to require the disclosure of summarised financial information for each individually material joint venture and in total for all other joint ventures (see paragraph 39(b) of the draft FRS and paragraph BC13 of the Basis for Conclusions).
- as consequential amendments to FRS 27 *Consolidated and Separate Financial Statements* and FRS 28, to require disclosure of a list and description of significant subsidiaries and associates. Those disclosure requirements were deleted in 2003 as part of the Improvements project. However, the Council understands from users that such disclosures are useful.
- as a consequential amendment to FRS 28, to require disclosure of current and non-current assets and current and non-current liabilities of an entity's associates. The proposed FRS would require disclosure of current and non-current amounts, whereas FRS 28 currently requires disclosure of total assets and total liabilities.

Question 4: Do you agree with the disclosures proposed for this draft FRS? If not, why? Are there any additional disclosures relating to joint arrangements that would be useful for users of financial statements?

Question 5: Do you agree with the proposal to restore to FRS 27 and FRS 28 the requirements to disclose a list and description of significant subsidiaries and associates? If not, why?

Question 6: Do you agree that it is more useful to users if an entity discloses current and non-current assets and liabilities of associates than it is if the entity discloses total assets and liabilities? If not, why?

[Draft] Financial Reporting Standard X *Joint Arrangements* ([draft] FRS X) is set out in paragraphs 1–44 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the [draft] FRS. Definitions of other terms are given in the Glossary for Financial Reporting Standards. [Draft] FRS X should be read in the context of its core principle, the *Preface to Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the [draft] FRS

IN1 [Draft] Financial Reporting Standard X *Joint Arrangements* sets out requirements for the recognition and disclosure of interests in joint arrangements. The objective of the [draft] FRS is to enhance the faithful representation of joint arrangements that an entity provides in its financial statements. It does that by requiring an entity:

(a) to recognise its contractual rights and obligations that arise from a joint arrangement. The form of an arrangement is no longer the most significant factor in determining the accounting.

(b) to provide enhanced disclosures about its interests in joint arrangements.

IN2 [Not used].

Main features of the [draft] FRS

IN3 The [draft] FRS supersedes FRS 31 *Interests in Joint Ventures* and INT FRS-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and is effective for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted.

Core principle

IN4 Parties to a joint arrangement recognise their contractual rights and obligations arising from the arrangement.

General requirements

IN5 The [draft] FRS applies to interests in joint arrangements, except interests in joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities when those interests are measured at fair value, with changes in fair value recognised in profit or loss in the period of the change.

IN6 A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to the activity. The [draft] FRS classifies joint arrangements into three types—joint operations, joint assets and joint ventures.

IN7 The [draft] FRS requires a party to a joint arrangement to recognise its contractual rights and obligations as assets and liabilities (and recognise the related income and expenses) in accordance with applicable FRSs. Contractual rights to individual assets and contractual obligations for expenses or financing represent interests in joint operations or joint assets.

IN8 A party recognises an interest in a joint venture (ie an interest in a share of the outcome generated by the activities of a group of assets and liabilities subject to joint control) using the equity method. When a party has an interest in only a share of the outcome generated by the activities of a group of assets and liabilities that it jointly controls, the only asset it controls is its investment in the joint venture. That asset is recognised using the equity method.

IN9 The [draft] FRS requires an entity to disclose a description of the nature of operations it conducts through joint arrangements, as well as a description of, and summarised financial information relating to, its interests in joint ventures.

[Draft] Financial Reporting Standard X
Joint Arrangements

Core principle

1 ***Parties to a joint arrangement* recognise their contractual rights and obligations arising from the arrangement.**

Scope

2 **This [draft] FRS shall be applied by all entities to interests in *joint arrangements*, except interests in joint ventures held by:**

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with FRS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall provide the disclosures required by paragraph 37 and paragraph 39(a) and (d) of this [draft] FRS.

Types of joint arrangement

3 Joint arrangements can have different forms and structures. This [draft] FRS classifies joint arrangements into three types—joint operations, joint assets and joint ventures.

4 Parties to a joint arrangement may have an interest in a joint operation or joint asset, and also have an interest in a joint venture.

5 The type of joint arrangement an entity is a party to depends on the rights and obligations that arise from the contractual arrangement. A party has a joint operation or joint asset if it has contractual rights to individual assets, or contractual obligations for expenses or financing, ie if the contractual arrangement gives the parties an interest in individual assets and liabilities of the arrangement. An entity is a party to a joint venture if it has rights only to a share of the outcome generated by a group of assets and liabilities carrying on an economic activity.

6 Among the factors that a party considers in assessing the type of arrangement is the legal form of the arrangement. The form of the arrangement can affect the rights and obligations of the parties, but is not always the determining factor. For example, the shareholders of a limited liability company are not usually obliged to pay for expenses incurred by, and financing of, the company. However, a contract (such as a guarantee contract) can negate the effect of limited liability.

7 Shared decision-making is established by contractual arrangement, which can take various forms. For example, the parties could establish shared decision-making by contract or by discussions documented in minutes. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint arrangement. Whatever its form,

the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint arrangement.

(b) the appointment of any board of directors or equivalent governing body of the joint arrangement and the voting rights of the parties.

(c) capital contributions by the parties.

(d) the sharing by the parties of the output, income, expenses or results of the activities of the joint arrangement.

Joint operation

8 A joint operation is a joint arrangement, or part of a joint arrangement, that involves the use of the assets and other resources of the parties, often to manufacture and sell joint products. Each party uses its own assets, such as property, plant and equipment and inventories. It also incurs its own expenses and liabilities and raises its own finance. The contractual arrangement specifies the basis on which the revenue from the sale of joint products and expenses incurred in common are shared among the parties.

9 Each party controls its own assets and has obligations for expenses it incurs. Therefore, each party recognises those assets and liabilities in its financial statements in accordance with applicable FRSs.

10 An example of a joint operation is when two or more parties combine their operations, resources and expertise to manufacture, market or distribute jointly a particular product. For example, two pharmaceutical companies enter into an agreement whereby one of them develops a drug and the other distributes the drug to customers. Each party uses its own assets, incurs its own expenses and receives an agreed share of the revenue from the sale of the drug.

Joint asset

11 A joint asset is an asset to which each party has rights, and often has joint ownership. Each party takes a share of the output from the asset and each bears an agreed share of the costs incurred to operate the asset.

12 Each party has exclusive rights to a share of the asset and the economic benefits generated from that asset. The parties arrange their own financing for their interest in the asset. They could be obliged, either individually or jointly, to pay for the liabilities and expenses of the joint arrangement.

13 A party's rights to a share of a joint asset might be demonstrated in any of the following ways. The list is not exhaustive.

(a) The party has the right to sell its interest in the asset.

(b) The party has the right to use the asset for its own purposes for some or all of its useful life.

(c) The party has the right to pledge its interest in the asset against its own financing.

(d) The party is contractually obliged to pay for its share of the cost of the joint asset, and consequently has contractual rights to that share of the asset.

14 An example of a joint asset arrangement is when several telecommunication companies jointly operate a network cable. Each party uses the cable for data transfer in return for which it bears an agreed proportion of the costs of operating the cable.

Joint venture

15 A joint venture is a joint arrangement, or part of a joint arrangement, that is jointly controlled by the *venturers*. The venturers do not have rights to individual assets or obligations for expenses of the venture. Rather, each venturer is entitled to a share of the outcome (eg profit or loss) of the activities of the joint venture.

16 A joint venture includes those assets and liabilities (and related income and expenses) that are not controlled by, or present obligations of, the venturers, ie those assets and liabilities of a joint arrangement that are not joint operations or joint assets of the venturers.

17 A joint venture often involves the establishment of a legal entity, such as a corporation. A joint venture controls assets, incurs liabilities and expenses and earns revenue. The joint venture might enter into contracts in its own name and raise finance for the joint venture activity.

18 A *business* usually involves assets and resources working together to achieve an outcome, which requires decisions of a financial and operating nature. A business that is subject to *joint control* is, therefore, a joint venture, unless circumstances indicate otherwise. Such circumstances would indicate that the parties have contractual rights to the assets of the business and have contractual obligations for the expenses of the business.

19 An example of a joint venture is when an entity starts a business in a foreign country in conjunction with an entity incorporated in that country. Neither entity controls the individual assets or is obliged to pay for the liabilities and expenses of the venture. Rather, the entities together govern the financial and operating policies of the venture; each is entitled to a share of the profit or loss generated by the activities of the venture.

20 Each venturer usually contributes cash or other resources to the joint venture. These contributions are recognised in the financial statements of the venturer as an investment in the joint venture.

Financial statements of parties to a joint arrangement

Joint operation

21 In respect of its interest in a joint operation, a party shall recognise, in accordance with applicable FRSs:

(a) the assets it controls and the liabilities it incurs;

(b) the expenses it incurs; and

(c) its share of the revenue and expenses from the sale of goods or services by the joint arrangement.

Joint asset

22 **In respect of its interest in a joint asset, a party shall recognise, in accordance with applicable FRSs:**

(a) its share of the joint asset, classified according to the nature of the asset;

(b) any liabilities it incurs;

(c) its share of any liabilities incurred jointly with the other parties relating to the joint arrangement;

(d) any revenue from the sale or use of its share of the output of the joint asset; and

(e) any expenses it incurs in respect of its interest in the joint arrangement.

Joint venture

23 **A venturer shall recognise its interest in a joint venture using the *equity method* except when:**

(a) the interest is classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) the exception to paragraph 10 of FRS 27 *Consolidated and Separate Financial Statements*, allowing a parent that also has an interest in a joint venture not to present consolidated financial statements, applies; or

(c) all of the following apply:

(i) the venturer is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying the equity method;

(ii) the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) the venturer does not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and

(iv) the ultimate or any intermediate parent of the venturer produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

24 A venturer that in accordance with paragraph 23(c) is exempt from applying the equity method may present *separate financial statements* as its only financial statements.

25 A venturer recognises its interest in a joint venture using the equity method, as described

in FRS 28 *Investments in Associates*, irrespective of whether it also has investments in subsidiaries and describes its financial statements as consolidated financial statements. In applying the equity method, a venturer reads each reference to an associate in paragraphs 20–34 of FRS 28 as applying to a joint venture.

26 When a venturer's interest in a joint venture is reduced to zero, paragraph 30 of FRS 28 requires a venturer to continue to recognise losses, and thus recognise a liability, if the venturer has legal or constructive obligations or made payments on behalf of the joint venture. Because venturers share control of the joint venture, a venturer will often have a legal or constructive obligation to support financially the activities of the joint venture.

27 When a venturer enters into a transaction with a joint venture, it recognises gains or losses resulting from the transaction in accordance with paragraph 22 of FRS 28. Those transactions would include, for example, the sale, purchase or contribution of assets, including the contribution of a non-monetary asset to a joint venture in exchange for an equity interest in the joint venture.

Loss of joint control

28 An entity shall discontinue the use of the equity method from the date on which it ceases to have joint control over a joint venture, except when it retains *significant influence*.

29 When an entity ceases to have joint control over a joint venture, it shall account for any remaining interest in accordance with FRS 39 from that date, provided that the former joint venture does not become a subsidiary or associate. From the date on which a joint venture becomes a subsidiary of an entity, the entity shall account for its interest in accordance with FRS 27 and FRS 103 *Business Combinations*. When a joint venture becomes an associate of an entity, the entity shall continue to account for its interest using the equity method in accordance with FRS 28.

30 Except when it continues to use the equity method, an entity shall, on the loss of joint control, measure at fair value any interest it retains in the former joint venture. The entity shall recognise in profit or loss any difference between:

(a) the fair value of the retained interest and any proceeds from disposing of a part interest in the joint venture; and

(b) the carrying amount of the interest at the date joint control is lost.

31 When an interest ceases to be a joint venture and is accounted for in accordance with FRS 39, the fair value of the interest when it ceases to be a joint venture shall be regarded as its fair value on initial recognition as a financial asset in accordance with FRS 39.

32 Except when an entity retains significant influence and continues to use the equity method, if an entity loses joint control of a joint venture, all amounts recognised in other comprehensive income and accumulated as a separate component of equity in relation to that joint venture shall be recognised by the entity on the same basis as would be required if the joint venture had disposed of the related assets or liabilities directly. Therefore, if a gain or loss recognised previously in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies to profit or loss the gain or loss from the separate component of equity (as a reclassification adjustment) when an interest ceases to be a joint venture. For example, if a joint venture has available-for-sale financial assets and the interest ceases to be a joint

venture, the entity shall reclassify to profit or loss the gain or loss recognised previously in other comprehensive income in relation to those assets. If an entity's ownership interest in a joint venture is reduced, but the interest continues to be a joint venture, the entity shall reclassify to profit or loss only a proportionate amount of the gain or loss recognised previously in other comprehensive income.

Joint venture held for sale

33 **A venturer shall account for an interest in a joint venture that is classified as held for sale in accordance with FRS 105.**

34 When an interest in a joint venture no longer meets the criteria to be classified as held for sale, a venturer recognises its interest in the joint venture using the equity method from the date of its classification as held for sale. A venturer amends its financial statements for the periods since classification as held for sale accordingly, so that it presents those financial statements as if the venture had not been classified as held for sale.

Separate financial statements of an entity

35 **In its separate financial statements, an entity shall apply paragraphs 37–42 of FRS 27 to its interests in joint ventures, if it is required or chooses to prepare such financial statements.**

Disclosure

36 **An entity shall provide a description of the nature and extent of its operations conducted through each of the three types of joint arrangement—joint operations, joint assets and joint ventures.**

37 **An entity shall disclose the aggregate amount of the following commitments separately from other commitments:**

(a) any capital commitments it has relating to its interests in joint arrangements; and

(b) its share of capital commitments incurred jointly with other parties.

38 **In accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, an entity shall disclose:**

(a) any contingent liabilities incurred relating to its interests in joint arrangements; and

(b) its share of contingent liabilities incurred jointly with other parties.

39 **A venturer shall disclose information that enables users of its financial statements to evaluate its activities conducted through joint ventures. To meet this objective, a venturer shall disclose the following information:**

(a) a list and description of interests in significant joint ventures and the proportion of ownership interest held.

(b) for each individually material joint venture, and in total for all other joint ventures summarised financial information, including, but not necessarily

limited to, the venturer's interest in the amount of each of:

(i) current assets,

(ii) non-current assets,

(iii) current liabilities,

(iv) non-current liabilities,

(v) revenues, and

(vi) profit or loss.

(c) the end of the reporting period of the financial statements of a joint venture, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the venturer, and the reason for using a different date or different period.

(d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of joint ventures to transfer funds to the venturer in the form of cash dividends, or repayment of loans or advances.

(e) the unrecognised share of losses of a joint venture, both for the period and cumulatively, if a venturer has discontinued recognition of its share of losses of a joint venture.

40 A venturer shall disclose separately its share of the profit or loss of joint ventures accounted for using the equity method, and the carrying amount of those interests. The venturer shall also disclose separately its share of any discontinued operations of such joint ventures. The disclosures are presented in total for all joint ventures.

41 A venturer shall recognise in other comprehensive income its share of changes recognised in other comprehensive income by joint ventures.

Effective date

42 An entity shall apply this [draft] FRS for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies this [draft] FRS in its financial statements for a period beginning before [date to be inserted after exposure], it shall disclose that fact.

Withdrawal of other FRSs

43 This [draft] FRS supersedes FRS 31 *Interests in Joint Ventures* (revised in 2003).

44 This [draft] FRS supersedes INT FRS 13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*.

Appendix A
Defined terms

This appendix is an integral part of the [draft] FRS.

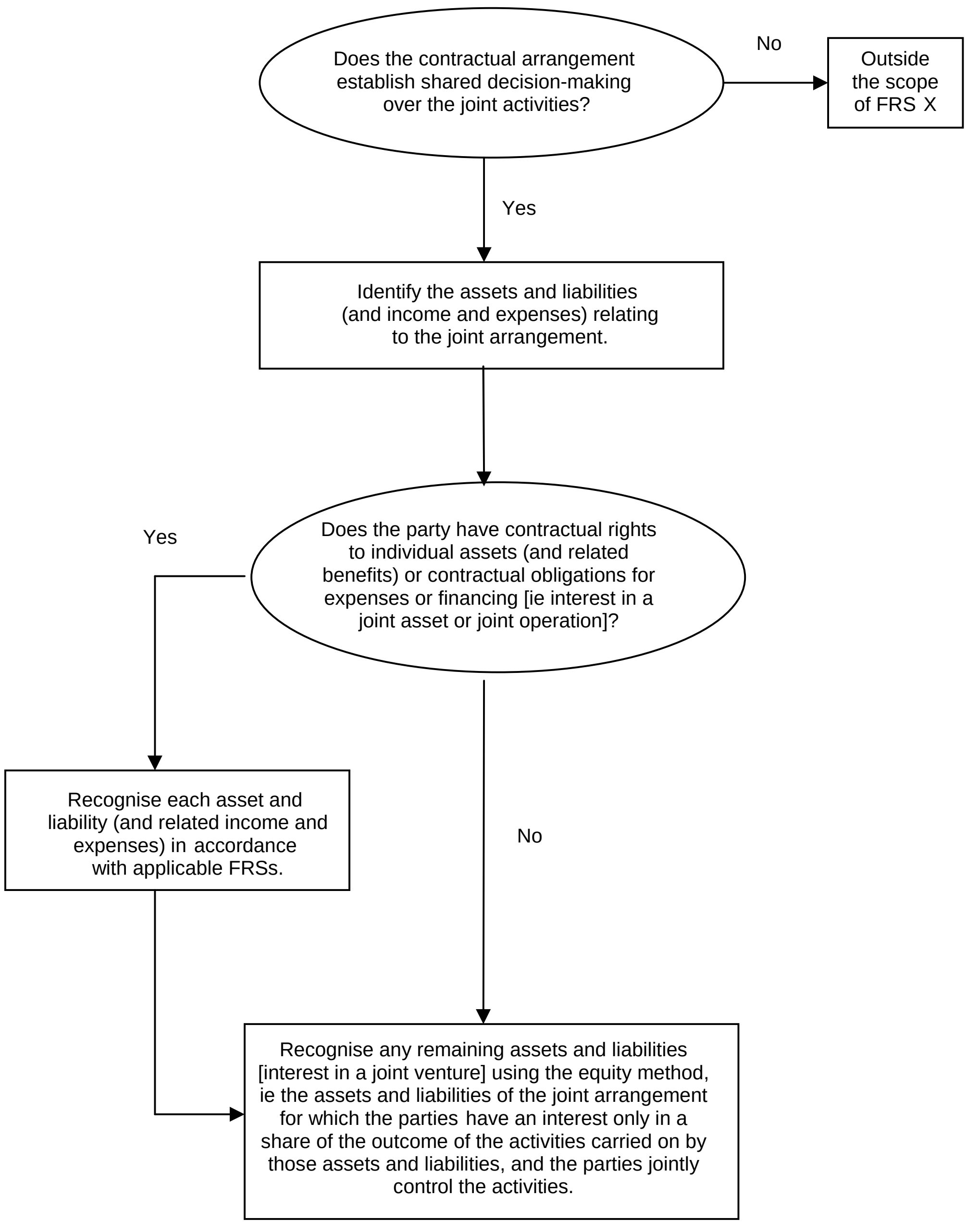
business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.
control	The power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
equity method	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.
joint arrangement	A contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to that activity.
joint control	The contractually agreed sharing of the power to govern the financial and operating policies of a venture so as to obtain benefits from its activities.
party to a joint arrangement	An entity that participates in **shared decisions** relating to the **joint arrangement**.
separate financial statements	Financial statements presented by a parent, or an investor in an associate or joint venture, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. Separate financial statements are those presented in addition to consolidated financial statements, or in addition to financial statements in which investments are accounted for using the **equity method**.
shared decisions	Decisions that require the consent of all of the parties to a **joint arrangement**.

significant influence	The power to participate in the financial and operating policy decisions of an entity, but not **control** or **joint control** over those policies.
venturer	A party to a joint venture that has **joint control** over that joint venture.

Appendix B
Application guidance

This appendix is an integral part of the [draft] FRS.

AG1 The following flow chart illustrates how a party to a joint arrangement recognises its interests in the arrangement.



Appendix C
Amendments to other FRSs

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies this [draft] FRS for an earlier period, these amendments shall be applied for that earlier period. Amended paragraphs are shown with the new text underlined and deleted text struck through.

C1 In Financial Reporting Standards (including Financial Reporting Standards and Interpretations), the following references are amended as described below, unless otherwise stated in this appendix.

- 'FRS 31 *Interests in Joint Ventures*' is amended to 'FRS X *Joint Arrangements*'.
- 'jointly controlled entity' is amended to 'joint venture', and 'jointly controlled entities' to 'joint ventures'.

C2 In FRS 107 *Financial Instruments: Disclosures*, paragraph 3 is amended as follows.

3 This FRS shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates* or ~~FRS 31 *Interests in Joint Ventures*~~ FRS X *Joint Arrangements*. However, in some cases, FRS 27, FRS 28 or ~~FRS 31~~ FRS X permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 39; in those cases, entities shall apply the ~~disclosure requirements in FRS 27, FRS 28 or FRS 31 in addition to those in~~ requirements of this FRS. Entities shall also apply this FRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in FRS 32.

(b) ...

C3 In FRS 1 *Presentation of Financial Statements* (as revised in 2007), paragraph 119 is amended as follows.

119 In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in FRSs. ~~An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see FRS 31 *Interests in Joint Ventures*). Some FRSs specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow.~~ For example, FRS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment.

C4 In FRS 7 *Statement of Cash Flows*, paragraphs 37 and 50 are amended and paragraph 38 is deleted as follows.

37 When accounting for an investment in an associate or a ~~subsidiary accounted for by use of~~ joint venture using the equity or cost method, or accounting for an investment in a subsidiary using the cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 [Deleted] ~~An entity which reports its interest in a jointly controlled entity (see FRS 31 *Interests in Joint Ventures*) using proportionate consolidation, includes in its consolidated statement of cash flows its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.~~

50 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, 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;

(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;~~

(c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and

(d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see FRS 108 *Operating Segments*).

C5 In FRS 21 *The Effects of Changes in Foreign Exchange Rates*, paragraphs 3 and 44–46 are amended as follows:

3 This Standard shall be applied: *

(a) …

(b) in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation~~, proportionate consolidation~~ or the equity method; and …

44 Paragraphs 45–47, in addition to paragraphs 38–43, apply when the results 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.

45 The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary

(see FRS 27 and FRS 28 *Investments in Associates* ~~FRS 31 *Interests in Joint Ventures*~~). …

46 When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, FRS 27 allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with FRS 27. 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 FRS 28 ~~*Investments in Associates*~~ and ~~FRS 31~~ FRS X *Joint Arrangements*.

C6 In FRS 24 *Related Party Disclosures*, paragraph 9 is amended as follows.

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

...

Joint control **is the contractually agreed sharing of ~~control over an economic activity~~ the power to govern the financial and operating policies of a venture so as to obtain benefits from its activities.**

...

C7 FRS 27 *Consolidated and Separate Financial Statements*, paragraphs 4 and 40 are amended as follows.

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

…

Separate financial statements **are those presented by a parent, or an investor in an associate or ~~a venturer in a jointly controlled entity~~ joint venture, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.**

...

40 The following disclosures shall be made in consolidated financial statements:

(a) [deleted]

(b) [deleted]

(ba) a list of significant subsidiaries, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

(c) ...

C8 In FRS 28 *Investments in Associates*, paragraphs 3–5 are deleted, paragraphs 2, 18, 19A and 37 are amended, and paragraph 16A is added as follows.

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

…

Joint control **is the contractually agreed sharing of ~~control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers)~~ the power to govern the financial and operating policies of a venture so as to obtain benefits from its activities.**

Separate financial statements **are those presented by a parent, or an investor in an associate or ~~a venturer in a jointly controlled entity~~ joint venture, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. Separate financial statements are those presented in addition to consolidated financial statements, or in addition to financial statements in which investments are accounted for using the equity method.**

16A An entity that in accordance with paragraph 13(c) is exempt from applying the equity method may present separate financial statements as its only financial statements.

18 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with FRS 39 from that date, provided the associate does not become a subsidiary or a joint venture as ~~defined~~ described in ~~FRS 31~~ FRS X. On loss of significant influence, the investor shall measure at **fair value any investment the investor retains in the former associate, except when it continues to use the equity method. …** *

19A Except when an investor continues to use the equity method, i~~I~~f an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis ~~that~~ as would be required if the associate had directly disposed of the related assets or liabilities. …

37 The following disclosures shall be made:

(a) the fair value of investments in associates for which there are published price quotations;.

(aa) a list and description of investments in significant associates and the proportion of ownership held.

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* Paragraphs 18 and 19A of IAS 28 included herewith anticipate the changes to those paragraphs made as consequential amendments byFRS 27 (as amended in 2007).

(b) **summarised financial information of associates, including the ~~aggregated amounts of~~ investor's interest in the amount of each of current assets, non-current assets, current liabilities, non-current liabilities, revenues and profit or loss. This disclosure is presented in total for all associates~~;~~.**

(c) **the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting power of the investee but concludes that it has significant influence~~;~~.**

(d) **the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence~~;~~.**

(e) **the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period~~;~~.**

(f) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances~~;~~.**

(g) **the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate~~;~~.**

(h) [deleted] **~~the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and~~**

(i) [deleted] **~~summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.~~**

C9 In FRS 32 *Financial Instruments: Presentation*, paragraph 4 is amended as follows.

4 **This Standard shall be applied by all entities to all types of financial instruments except:**

(a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with FRS 27 *Consolidated and Separate Financial Statements*, FRS 28 *Investments in Associates* or ~~FRS 31 *Interests in Joint Ventures*~~ FRS X *Joint Arrangements*. However, in some cases, FRS 27, FRS 28 or ~~FRS 31~~ FRS X permits an entity to account for an interest in a subsidiary, associate or joint venture using FRS 39; in those cases, entities shall apply the ~~disclosure requirements in FRS 27, FRS 28 or FRS 31 in addition to those in~~ requirements of this Standard. Entities shall also apply**

this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

(b) ...

C10 In FRS 39 *Financial Instruments: Recognition and Measurement*, paragraph AG3 of the Application Guidance is amended as follows.

AG3 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 entity uses FRS 28 or FRS X to determine whether the equity method of accounting is appropriate for such an investment. ~~Similarly, the investor entity uses FRS 31 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~~ designates the strategic investment as at fair value through profit or loss or classifies it as held for trading, and accounts for it in accordance with this Standard ~~to that strategic investment~~.