



Accounting for Joint Arrangements and other new IFRS guidance

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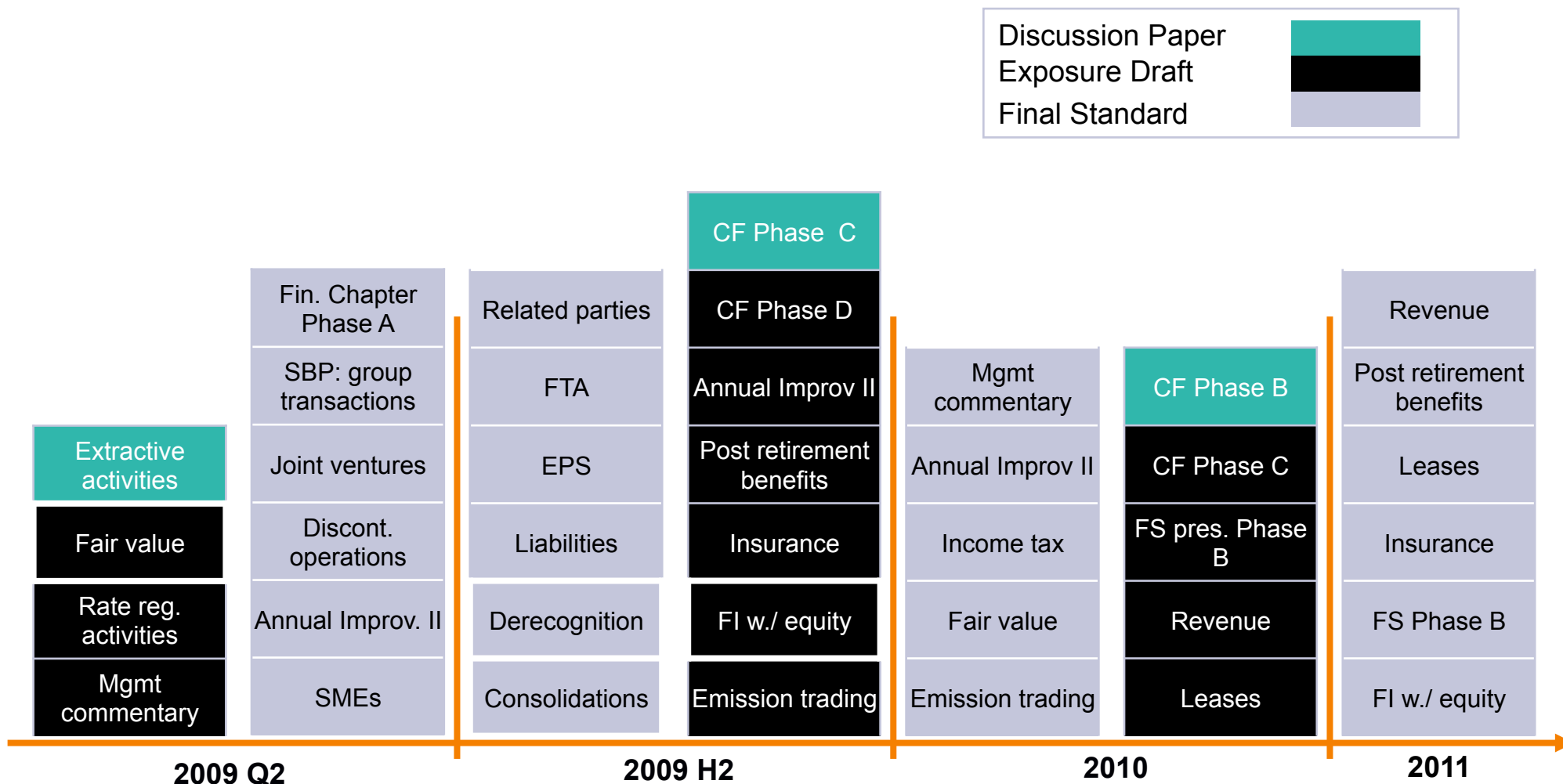
Agenda

- ◆ **Timeline of new IFRS guidance**
- ◆ **Extractive Activities project**
- ◆ **Joint Arrangements**
 - Key differences between ED9 and proposed IFRS 9
 - Joint control
 - Joint ventures vs. Joint operations
 - Accounting for joint ventures
 - Accounting for joint operations
 - Timing of standard

The oil and gas industry – why so special?

- ◆ Oil and gas production is the most important industry in many resource-rich countries
- ◆ The risks and rewards can be shared in many ways by different parties through different stages
- ◆ The costs incurred do not accurately reflect the potential value, especially in early stages

Timeline - IASB work programme until 2011



Extractive Activities project

- ◆ **Project commenced in 1998**
- ◆ **Discussion paper to be released in Q2 2009**
 - Definition of reserves and resources
 - Recognition of reserves and resources
 - Initial measurement of reserves and resources
 - Subsequent measurement of reserves and resources
 - Disclosure of reserves and resources, and related information
- ◆ **An extended comment period is expected**

Joint arrangements

- ◆ **In 2004 the project is added to the IASB agenda and in 2005 becomes part of the short-term convergence project**
- ◆ **Why undertake this project?**
 - 1) IAS 31 uses the form of the arrangement as the primary determinant of the accounting, which does not always reflect the underlying rights and obligations agreed to by the parties.
 - 2) IAS 31 gives an entity a choice of accounting treatment for interests in jointly controlled entities, which makes it difficult to compare financial reports.
- ◆ **Exposure Draft ED9 Joint Arrangements was released in September 2007**

Key differences between ED9 and proposed IFRS 9

- ◆ **Shared decisions**
- ◆ **Types of joint arrangement**
- ◆ **Hybrids**
- ◆ **Determining the type of joint arrangement**
- ◆ **Investors**
- ◆ **Accounting requirements for joint operations / assets**
- ◆ **Examples changed and/or removed (incl. Example 6 Oil and gas farm-in arrangement)**

Joint control

- ◆ **Joint control is the sharing of control by all parties to a joint arrangement acting together in accordance with a contractual arrangement**
- ◆ **Control is defined in IAS 27 *Consolidated and Separate Financial Statements***

Joint control

Party A – 45%

Party B – 45%



Party C – 10%

Joint Ventures vs. Joint Operations

◆ 3 classifications of joint arrangements in ED 9

- Joint ventures
- Joint operations
- Jointly controlled assets

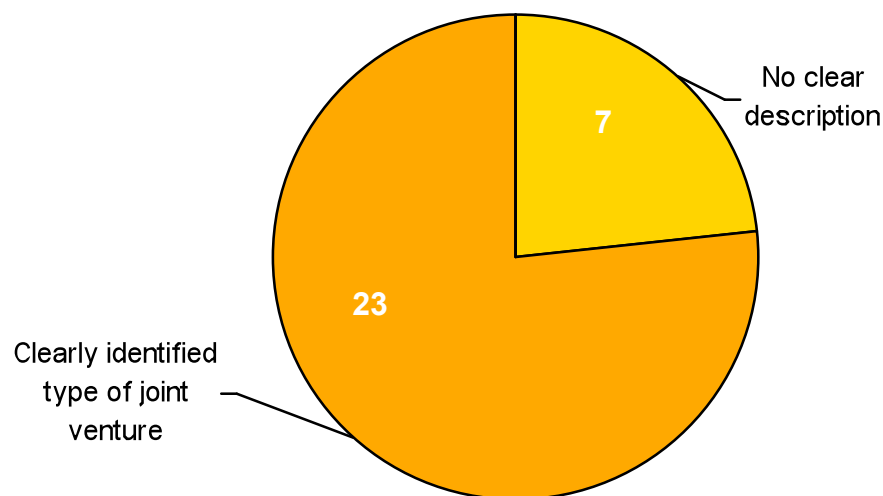
◆ 2 classifications of joint arrangements in IFRS 9

- Joint ventures
- Joint operations

◆ What about the hybrid model?

Existing IAS 31 disclosure – KPMG Oil & Gas survey

Disclosure of types of joint ventures - IAS 31



Of the 30 companies included in the survey that disclosed an accounting policy for joint ventures, 23 percent referred to joint ventures in general terms and did not distinguish between the 3 types of joint venture in IAS 31

Joint Ventures vs. Joint Operations

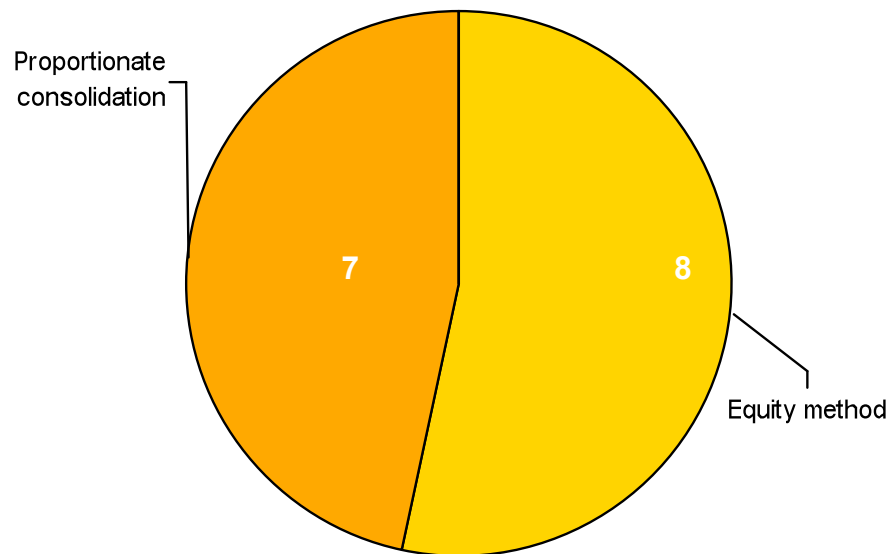
- ◆ How do we know what an arrangement is?
- ◆ A *joint operation* is a joint arrangement that gives its parties assets, liabilities, revenues and expenses of the operation.
- ◆ A *joint venture* is a joint arrangement that gives its parties an investment in the net activities of the venture.
- ◆ Reassessment of arrangements

Accounting for Joint Ventures

- ◆ **Equity method only**
- ◆ **Proportionate consolidation removed as an option**
- ◆ **Consequential amendments to IAS 28 *Investments in Associates***

Current accounting – KPMG Oil & Gas survey

Accounting for jointly controlled entities



15 companies in the survey group had an investment in a jointly controlled entity.

There was an almost even split between the equity method and proportionate consolidation.

Accounting for Joint Operations

- ◆ Look to other IFRSs...
- ◆ Which IFRSs
 - IAS 28 *Investments in Associates*
 - IAS 16 *Property, Plant and Equipment*
 - Others?

Timing and next steps

- ◆ **Final standard IFRS 9 *Joint Arrangements* is expected to be issued in Q3 2009**
- ◆ **Amendments to IAS 28 will be exposed by the IASB**
- ◆ **Effective date?**

Questions

◆ Any questions?



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