exposure draft

ACCOUNTING STANDARDS BOARD
PROPOSED ACCOUNTING STANDARDS
FOR PRIVATE ENTERPRISES

Joint Arrangements and Investments

August 2013

COMMENTS TO THE AcSB MUST BE RECEIVED BY NOVEMBER 11, 2013

This Exposure Draft reflects proposals made by the Accounting Standards Board (AcSB).

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AcSB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

To be considered, comments to the AcSB must be received by November 11, 2013, addressed to:

Peter Martin, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

A PDF response form has been posted with this document to assist you in submitting your comments to the AcSB. Alternatively, you may send comments by email (in Word format), to: ed.accounting@cpacanada.ca

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure:

- to replace INTERESTS IN JOINT VENTURES, Section 3055, with INTERESTS IN JOINT ARRANGEMENTS, Section 3056; and
- to amend INVESTMENTS, Section 3051,

in Part II of the CICA Handbook – Accounting, as part of its program of major improvements to accounting standards for private enterprises.

The proposed amendments to Section 3051 would apply to all investments accounted for using the equity method, including an interest in the net assets of a jointly controlled enterprise.

A not-for-profit organization would apply amended Section 3051 when it has significant influence over a profit- oriented enterprise. Section 3056 would not apply to not-for-profit organizations.

Main features of the Exposure Draft

The proposals reduce the accounting policy options for joint arrangements so that the accounting more faithfully represents the nature of the investment. The proposals are consistent with the key concepts in IFRS 11 *Joint Arrangements*. The AcSB proposes that new Section 3056 be based on existing Section 3055. The AcSB has limited the proposed revisions in Section 3056 and the amendments to Section 3051 to those that provide significant benefit.

For an analysis of the effects of these proposals, see the "Basis for Conclusions." A Table of Concordance (below) summarizes the proposed changes from each of existing Sections 3051 and 3055.

Section 3056

The substantive changes from Section 3055 are as follows:

Terminology

- The term "joint venture" would be replaced with "joint arrangement"; and
- The term "venturer" would be replaced with "investor in a joint arrangement".

Recognition

- The option to account for any type of joint venture using the proportionate consolidation method, equity method or cost method would be removed.

- An investor in a joint arrangement would account for its interest according to its rights and obligations in the joint arrangement, as follows:
  - An investor in a jointly controlled operation or a jointly controlled asset has rights to the individual assets and obligations for the individual liabilities relating to the joint arrangement and would account for its interest in the joint arrangement by recognizing its share of assets controlled, liabilities incurred, revenues and expenses.
  - An investor in a jointly controlled enterprise that has rights to the net assets of the joint arrangement would account for that interest in the net assets using either the equity method or cost method. Alternatively, if the investor has rights to the individual assets and obligations, it would recognize its share of assets controlled, liabilities incurred, revenues and expenses.

Contributions and transactions

- For contributions to a joint arrangement, the requirement to defer and amortize the portion of a gain that does not relate to the amount of cash received or fair value of other assets received that do not represent a claim on the assets of the joint arrangement would be removed.
- An investor with an interest in the net assets of a joint arrangement would account for its contributions to, and transactions with, the joint arrangement in accordance with INVESTMENTS, Section 3051.

Transition

- Specific transitional proposals are provided for changes from the proportionate consolidation method to the equity or cost method and for changes from the equity or cost method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement.

Section 3051

The amendments to Section 3051 are as follows:

Scope

- The scope would be modified to clarify that it includes investments subject to significant influence and certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes), but does not include other investments (such as subsidiaries and interests in joint arrangements).

Contributions and transactions

- Gains and losses on transactions between investors and equity accounted investees would be recognized in income to the extent of the interests of the non-related investors.

Transition

- Prospective application would be permitted in accordance with ACCOUNTING CHANGES, Section 1506.

Consequential amendments

FIRST-TIME ADOPTION, Section 1500

Section 1500 would be amended to allow an investor that is adopting the standards in Part II of the Handbook for the first time to apply the transition provisions from Sections 3051 and 3056 as described above.

Additional minor consequential amendments will be made, as required, to other standards in Part II.

Plans for finalizing the proposals

The AcSB, in consultation with its Private Enterprise Advisory Committee, will redeliberate the proposals to take into account comments received. The AcSB will provide updates about its redeliberations on its Joint Arrangements project page.

The AcSB plans to issue Section 3056 and the amendments to Section 3051 in a package with other major improvements to accounting standards for private enterprises in the second half of 2014. The effective date of the standards included in these improvements will be no earlier than fiscal years beginning on January 1, 2016.

Comments requested

The proposed new guidance in Sections 3051 and 3056 carry forward much of the text from those Sections that was not within the scope of the current project. Therefore, the AcSB requests comments only on the changes discussed in the Highlights and summarized in the Table of Concordance.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative supported by specific reasoning.

While the AcSB welcomes comments on all changes proposed to Sections 3051 and 3055, it particularly welcomes comments on the following:

Section 3056

1. Do you agree that an investor should recognize its interest in a joint arrangement based on its contractual rights and obligations relating to the joint arrangement?

2. Do you agree that an investor in a jointly controlled operation or jointly controlled asset should recognize in its balance sheet the assets it controls and the liabilities it incurs; and in its income statement its share of the revenues and expenses incurred by the joint arrangement?

3. Do you agree that an investor with an interest in the net assets of a jointly controlled enterprise should have an accounting policy choice to account for those interests using either the equity method or the cost method?

4. Do you agree that an investor that has rights to the individual assets and obligations for the individual liabilities of a jointly controlled enterprise should recognize: in its balance sheet the assets it controls and the liabilities it incurs; and in its income statement its share of the revenues and expenses incurred by the joint arrangement?

5. Do you agree that for contributions to a joint arrangement, the requirement to defer and amortize the portion of a gain that does not relate to the amount of cash received or fair value of other assets received should be removed?

6. Do you agree that an investor with an interest in the net assets of a joint arrangement should account for its contributions to, and transactions with, the joint arrangement in accordance with INVESTMENTS, Section 3051, as amended?

7. Do you agree that no changes should be made to the disclosure requirements?

8. Do you think that the transitional provisions would enable an investor to apply the new guidance in a cost-effective manner (see paragraphs 3056.46-.51)?

9. Do you agree that an exemption should be included in Section 1500 to provide investors adopting accounting standards for private enterprises for the first time with relief when changing the method for accounting for joint arrangements?

Section 3051

1. Do you agree with the proposed clarification of the scope of the Section?

2. Do you agree that guidance for transactions between investors and equity accounted investees should be modified to recognize gains and losses in income to the extent of the interests of the non-related investors?

3. Do you agree that no changes be made to the disclosure requirements?

4. Do you agree that the transitional provisions would enable an investor to apply the new guidance in a cost-effective manner?

5. Do you agree that an exemption should be included in Section 1500 to provide investors adopting accounting standards for private enterprises for the first time with the same relief as provided for on initial adoption of the proposed amendments to the standard?

For your convenience, a PDF response form has been posted with this document. You can save the form, both during and after its completion, for future reference. Alternatively, written comments may be submitted by email (Word format preferred) to: ed.accounting@cpacanada.ca.

Basis for Conclusions

Introduction

This Basis includes the expected effects that were considered by the AcSB in developing the proposals in this Exposure Draft. The AcSB considered the consequences of adopting new guidance relative to the objective of financial statements and the benefit versus cost constraint, as described in FINANCIAL STATEMENT CONCEPTS, Section 1000. The purpose of financial reporting is to "communicate information that is useful to investors, creditors and other users in making their resource allocation decisions and/or assessing management stewardship."

The AcSB thinks that the proposals will significantly improve the understandability, comparability and representational faithfulness of financial reporting for investments in arrangements subject to joint control.

Recognition of an interest in a joint arrangement

Under Section 3055, an investor may choose to account for its interests in joint ventures (now called joint arrangements) using the proportionate consolidation, equity or cost method. This accounting policy choice continues the differential reporting option from pre-changeover standards in Part V of the Handbook. The AcSB noted that those choices can result in accounting that does not provide a faithful representation of the substance of some joint arrangements.

Proportionate consolidation of an interest in a jointly controlled enterprise may result in reporting assets that the investor does not control, liabilities for which it has no direct obligation and cash flows to which it does not have direct access. Accounting for an interest in jointly controlled assets or jointly controlled operations using the equity or cost method results in not recognizing assets the investor controls and not recognizing obligations the investor is liable for.

The AcSB thinks that an investor should account for its interest in a joint arrangement based on what it owns and what it owes, as specified in the joint arrangement contract. This will ensure that the substance of an investor's interest in a joint arrangement is faithfully represented.

Jointly controlled operations and jointly controlled assets
The AcSB thinks that an investor with an interest in jointly controlled operations or jointly controlled assets, should recognize its interest in the individual assets, obligations, revenues and expenses of the joint arrangement. This accounting is similar to the proportionate consolidation method of accounting but may produce different results depending on the details of the joint arrangement. Under proportionate consolidation, the investor recognizes its portion of the assets and liabilities of the joint arrangement based on the investor's ownership interest in the joint arrangement. This can differ from the investor's rights to assets and

obligations for liabilities specified in the joint arrangement contract. In many cases, accounting for the investor's direct interests in assets and obligations for liabilities will produce the same accounting result as proportionate consolidation.

Some interests in joint arrangements that give the investor rights to individual assets and obligations for the joint arrangements liabilities are currently accounted for using the equity or cost method. Those methods do not provide users of financial statements with information about the enterprise's rights to the assets and obligation for the liabilities of the joint arrangement. This information can be important to users, although it may involve more effort and cost to prepare financial statements.

Jointly controlled enterprises
An investor with an interest in a jointly controlled enterprise generally has an interest in the net assets of the jointly controlled enterprise, rather than having rights to the individual assets and an obligation for the liabilities of the joint arrangement. Consequently, the AcSB thinks the investor should account for that interest in the same way as other investments that provide an interest in net assets but are not controlled by the investor (i.e., in accordance with INVESTMENTS, Section 3051). Section 3051 provides an accounting policy choice to use either the equity or the cost method.

In some cases, however, the investor may have rights to the individual assets and obligations for the liabilities of the jointly controlled enterprise, rather than rights to the net assets. In those circumstances, the investor should account for its interest in the same manner as for an interest in a jointly controlled operation or a jointly controlled asset (i.e., by recognizing its share of assets controlled, liabilities incurred, revenues and expenses).

Some joint arrangements that provide an interest in the net assets of jointly controlled operations are currently accounted for using proportionate consolidation. Proportionate consolidation results in the balance sheet including assets to which the enterprise does not have direct rights and liabilities for which it does not have an obligation. This may be misleading to users. The AcSB noted that the equity and cost methods provide less information about the investee than proportionate consolidation. However, reporting enterprises are required to provide a listing and description of interests in significant joint arrangements including the names, carrying values and proportion of ownership interests held in each joint arrangement. Additionally, users can request additional information if they require it.

Contributions and transactions

For contributions to a joint arrangement, Section 3055 only permits immediate recognition of a gain to the extent of any cash received or the fair value of any other assets received that do not represent a claim on the assets of the joint arrangement. The remaining portion of that gain is deferred and amortized or recognized when the contributed assets are disposed of by the joint arrangement. The AcSB received feedback from preparers of private enterprises' financial statements that this deferral adds additional complexity to the accounting. Users informed the AcSB that this accounting is not well understood and that removing the deferral would not affect their analysis. The AcSB thinks that this deferral requirement does not meet the cost/benefit test and, therefore, did not include it in Section 3056.

Section 3055 addresses how to account for contributions and transactions between and investor and a joint venture when proportionate consolidation is used but not how to account for such transactions when the equity method is used. The current guidance in Section 3051 on how to account for transactions (including contributions) between an entity and an equity accounted investee is not clearly stated and, the AcSB thinks, is often not well understood. The AcSB understands that, in many cases, the current guidance in Section 3055 relating to contributions and transactions is being applied by investors in joint arrangements that account for their interests using the equity method.

The AcSB thinks that the recognition and measurement of gains and losses resulting from contributions and transaction between an investor and a joint arrangement accounted for using the equity method should be the same as for interests in jointly controlled operations and jointly controlled assets. The AcSB also thinks that gains and losses for interests in the net assets of a joint arrangement accounted for using the equity method should be recognized and measured consistently with other investments accounted for using the equity method. To achieve this, guidance on contributions and transactions between an investor and an equity accounted investee that is consistent with the guidance in Section 3056 has been added to Section 3051. This also provides clearer guidance than currently exists in Section 3051.

Amendments to clarify Section 3051

The AcSB has been informed that two aspects of Section 3051 are unclear. The AcSB decided to clarify the relevant paragraphs as part of this project, rather than as part of the annual improvements process. The AcSB thinks it will be less confusing to stakeholders if all proposed amendments to the Section are bundled together for purposes of exposure and are then incorporated into the Handbook at the same time.

The AcSB proposes to clarify that the scope of Section 3051 includes investments subject to significant influence and certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes) but does not include other investments. Accounting for investments in subsidiaries and joint arrangements is addressed in the AcSB's Exposure Draft, "Consolidations," and, within this Exposure Draft, in INTERESTS IN JOINT ARRANGEMENTS, Section 3056. These proposed standards provide an accounting policy choice to use the equity method or the cost method in accordance with Section 3051 for certain investments.

The accounting policy choice to use either the equity method or the cost method currently states that the same choice must be made for all investments within the scope of the Section. The AcSB proposes to amend the wording to require the same choice to be made for all investments subject to significant influence, removing any implication that it applies to other investments within the scope of the Section. The proposed amendment to the scope of the Section also clarifies that a different accounting policy choice can be made for each of the following types of investments: subsidiaries that are not consolidated;, investments subject to significant influence; and interests in the net assets of a joint arrangement.

Impairment

Currently, Section 3055 includes impairment guidance for interests in joint arrangements measured at cost or using the equity method that is substantially the same as that in Section 3051. Section 3056 proposes that interests in joint arrangements measured at cost or using the equity method be accounted for in accordance with Section 3051. Consequently, the AcSB proposes to remove the guidance on impairment from Section 3056 because this is an unnecessary duplication of the guidance in Section 3051.

Disclosures

The AcSB is not aware of any issues with the existing disclosure requirements in Sections 3051 and 3055 and, therefore, they have been retained, except for those that are no longer relevant. No new disclosures are proposed. The AcSB also proposes to remove from Section 3056 any disclosures that relate to Section 3051 and, instead, to specify that the disclosures in Section 3051 should be provided for joint arrangements accounted for using the cost or equity method.

Transition

Transition to a new or amended standard can result in one-time costs to financial statement preparers and users. Some preparers may have to change from proportionate consolidation to the equity or cost method. The AcSB decided that restating investments in joint arrangements as if they had always been accounted for using the cost or equity method could be costly and would provide no benefit to users of financial statements. Therefore, the AcSB decided to provide simplified transitional provisions. The investment in the net assets of a joint arrangement should be measured at the beginning of the earliest period presented at an amount equal to the net carrying amount of the assets and liabilities that the investor had previously proportionately consolidated.

However, transition from the cost or equity methods to accounting for the investor’s interests in the individual assets and obligations of a joint arrangement will require new or different data. The AcSB does not think that full retrospective restatement for this change in accounting would always meet a cost/benefit test and, therefore, has provided simplified transitional provisions. In addition to full retrospective restatement, an investor will have the option to use either the carrying amounts of the assets and liabilities in the financial statements of the joint arrangement at the beginning of the year immediately preceding adoption of Section 3056, or the fair value of the tangible assets and liabilities of the joint arrangement at the same date. The contractual terms of the joint arrangement will be applied to these amounts to determine the amounts of assets and liabilities to be recognized by the investor. Any difference between the net amount of the assets and liabilities of the joint arrangement included in its balance sheet and the amount of any previously recognized interest in the joint arrangement is recognized as an adjustment to opening retained earnings. These options are similar to those being proposed in the AcSB's Exposure Draft, "Consolidations."

The AcSB decided that prospective application of the proposed amendments to Section 3051 should be permitted because requiring retrospective restatement would not provide useful information to users and would not meet a cost/benefit test.

Consequential amendments to FIRST-TIME ADOPTION, Section 1500

An investor that applies Part II of the Handbook for the first time may have to change the method of accounting for an interest in a joint arrangement to comply with Section 3056. It also may not have previously accounted for gains and losses in a manner consistent with the proposed amendments to Section 3051. Requiring retrospective application of Sections 3051 and 3056 would entail the same difficulties that led the AcSB to include the transitional relief in those Sections. Consequently, the AcSB decided to permit first-time adopters of Part II to apply the transitional provisions from Sections 3051 and 3056.

REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4450

Section 4450 in Part III of the Handbook includes guidance on accounting by a not-for-profit organization for an interest in a joint venture. The AcSB decided not to propose any amendments to Section 4450 at this time. The AcSB will consider amendments to Section 4450 as part of its deliberations of the comments received on the Statement of Principles,"Improvements to Not-for-Profit Standards," issued in April 2013.

Conclusion

Having considered the effects of the proposed changes to Sections 3051 and 3056 as discussed above, the AcSB thinks that the positive effects of the proposals will outweigh any negative effects and that the proposals will result in significant improvements to financial reporting for investments and for arrangements subject to joint control.

Table of Concordance — Section 3056

The following table indicates the correspondence between the proposed new Section, INTERESTS IN JOINT ARRANGEMENTS, Section 3056, and the existing Section, INTERESTS IN JOINT VENTURES, Section 3055. Comments have been included for substantive changes, as appropriate. Minor changes include updates for terminology and editorial changes.

Paragraph(s) in proposed Section 3056	Paragraph(s) in Section 3055	No change	Changes		Comments
			Minor	Substantive	
.01-.15	.01-.16		X		
—	.17			X	This accounting policy choice is not permitted
.16	—			X	Describes investor's rights in jointly controlled operations and jointly controlled assets
.17-.18	.18-.19		X		
—	.20-.22			X	Proportionate consolidation method is not permitted
.19	.26-.30, &.34-.36			X	Combines guidance on contributions and transactions; no deferral and amortization of gains from contributions to a joint venture
.20	.31		X		
.21	.33		X		
.22	.32		X		
.23	.38		X		
.24	.39		X		
.25	.37		X		
.26	.40		X		
.27	—			X	Describes investor's rights in jointly controlled enterprises
.28	.16		X		
.29-.30	—			X	Accounting for interests in the net assets of jointly controlled enterprises
.31	—			X	Accounting for interests in individual assets and liabilities of jointly controlled enterprises
.32-.34	.23-.25		X		
.35	—			X	Contributions and transactions – investor's interests in the net assets of joint arrangements
—	.41-.44			X	Impairment guidance is contained in paragraphs 3051.23-.27

Paragraph(s) in proposed Section 3056	Paragraph(s) in Section 3055	No change	Changes		Comments
			Minor	Substantive	
.36-.38	.45-.47		X		
.39	.48		X		
.40-.42	.50-.52		X		
.43	.49 & .53			X	Requires the disclosures in Section 3051
.44	.54	X			
.45	.55			X	Effective date
.46-.51	—			X	Transition

Table of Concordance— Section 3051

The following table indicates the amendments made to Section INVESTMENTS, Section 3051. Comments have been included for substantive changes, as appropriate. Minor changes include updates for terminology and editorial changes.

Paragraph(s) in amended Section 3051	Paragraph(s) in existing Section 3051	No change	Changes		Comments
			Minor	Substantive	
.01	.01		X		
.02-.03	.02			X	Clarifies the scope
.04	.03	X			
.05-.07	.04-.07		X		
.08	.08	X			
.09	.09		X		
.10	.10	X			
.11-.13	.11-.13		X		
.14-.17	.14			X	Accounting for transactions between investors and equity accounted investees
.18	.16	X			
.19	.07		X		
.20	.15		X		
.21-.24	.17-.20	X			
.25	.21		X		
.26-.30	.22-25A	X			
.31-.32	.26-.27		X		
.33	.28	X			
.34-.38	.29-.33	X			
.39-.40	.34-.35	X			
.41	—			X	Transition

Interests in Joint Arrangements, Section 3056

PURPOSE AND SCOPE

.01 This Section establishes standards for investments in arrangements subject to joint control. However, this Section does not deal with accounting by joint arrangements themselves.

.02 This Section applies when economic activities meet the definitions and criteria outlined in paragraphs 3056.03-.15, even though such activities may not be referred to as joint arrangements. However, this Section does not apply when economic activities do not meet the definitions and criteria set out in paragraphs 3056.03-.15 even though they may sometimes be referred to as joint arrangements. Accounting for investments in such activities is governed by the nature of the investments (see SUBSIDIARIES, Section 1591, INVESTMENTS, Section 3051, and FINANCIAL INSTRUMENTS, Section 3856).

DEFINITIONS

.03 The following terms are used in this Section with the meanings specified:

(a) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(b) **Joint control** of an economic activity is the contractually agreed sharing of the continuing power to determine its strategic operating, investing and financing policies.

(c) A **joint arrangement** is an economic activity resulting from a contractual arrangement whereby two or more investors jointly control the economic activity.

.04 A distinctive characteristic common to all joint arrangements is that two or more investors are bound by a contractual arrangement that establishes that the investors have joint control over the joint arrangement, regardless of the difference that may exist in their ownership interest. None of the individual investors is in a position to exercise unilateral control over the joint arrangement. Decisions in all areas essential to the accomplishment of the joint arrangement require the consent of the investors in such manner as defined in the terms of the contractual arrangement. This characteristic of joint control distinguishes interests in joint arrangements from investments in other activities over which an investor may exercise control or significant influence (see SUBSIDIARIES, Section 1591, and INVESTMENTS, Section 3051). Activities conducted with no formal contractual arrangements that are jointly controlled in substance are joint arrangements for the purposes of this Section.

.05 Interests in an economic activity as described above may exist without entitling all the investors to share in joint control. In such cases, this would not be considered an interest in a joint arrangement for those investors who do not share in joint control, even though the economic activity may be viewed as a joint arrangement by those investors who do have joint control. The interest of an investor who does not have joint control over the joint arrangement qualifies as an investment and is subject to the requirements of INVESTMENTS, Section 3051, or FINANCIAL INSTRUMENTS, Section 3856.

.06 An investor that has joint control over a joint arrangement has the right and ability to obtain future economic benefits from the resources of the joint arrangement and is exposed to related risks. Future economic benefits normally include cash flows or other form of output generated by the joint arrangement, and related risks normally include exposure to losses of the joint arrangement or the direct exposure of the investor to loss. An investor who has made a loan to a joint arrangement does not have similar exposure to the benefits and related risks of the joint arrangement. For example, an arrangement whereby an investor is not entitled to share in the net income of the joint arrangement and has recourse to assets of the other investors would suggest that the risks and rewards of the investor are similar to those associated with a loan. Accordingly, the investor would account for the arrangement as a loan.

.07 The contractual arrangement that binds the investors may take different forms. For example, it may be evidenced by a contract between the investors or, in some cases, the arrangement may be incorporated in the articles or other by-laws of the joint arrangement. Whatever its form, the contractual arrangement is usually in writing and covers matters such as the activities, duration, policies and procedures of the joint arrangement, the allocation of ownership, the decision-making process, the capital contributions by the investors, and the sharing by the investors of the output, revenue, expenses or results of the joint arrangement.

.08 The contractual arrangement may designate an investor as the manager or the operator of the joint arrangement. The operator does not control the joint arrangement but acts within the financing and operating policies that have been agreed to by the investors in accordance with the contractual arrangement and delegated to the operator. If the operator has the continuing power to determine the strategic operating, investing and financing policies of the enterprise without the co-operation of the other investors, it controls the arrangement and the arrangement is a subsidiary of the operator and not a joint arrangement (see SUBSIDIARIES, Section 1591).

.09 Often, the activities of a joint arrangement are an extension of, or complementary to, those of the investors. For example, joint arrangements are often formed to access new markets, to gain economies of scale or to access new skills and resources. Joint arrangements may take various forms and structures such as partnerships, co-tenancies, corporate or unincorporated enterprises or undivided interests. Whatever the form, joint arrangements may fall into one of the following broad categories, which are commonly described as, and meet the definition of, joint arrangements: jointly controlled operations, jointly controlled assets and jointly controlled enterprises.

Jointly controlled operations

.10 The operations of some joint arrangements involve the use of the assets and other resources of the investors, rather than the establishment of a corporation, partnership or other enterprise, or a financial structure that is separate from the investors themselves. Each investor uses its own property, plant and equipment and carries its own inventories for the purposes of the joint arrangement activities. The assets remain under the ownership and control of each investor. Each investor also incurs its own expenses and liabilities and raises its own financing, which represents its own obligations. The joint arrangement activities may be carried out by the investor's employees alongside the investor's similar activities. The contractual arrangement usually provides a means by which the revenue from the sale of goods or services by the joint arrangement and any expenses incurred in common are shared among the investors.

.11 An example of jointly controlled operations is when two or more investors combine their operations, resources and expertise in order to manufacture, market and distribute jointly a particular product. Different parts of the manufacturing process are carried out by each of the investors using their own assets and other resources. Each investor bears its own costs and takes a share of the revenue from the sale of the product, such share being determined in accordance with the contractual arrangement.

Jointly controlled assets

.12 Some joint arrangements involve the joint control, and often the joint ownership, by the investors of one or more assets contributed to, or acquired for the purpose of, the joint arrangement and dedicated to the purposes of the joint arrangement. Jointly controlled assets are used to obtain benefits for the investors. Each investor may take a share of the output from the assets and each bears an agreed share of the expenses incurred. Such a joint arrangement does not involve the establishment of a corporation, partnership or other enterprise, or a financial structure that is separate from the investors themselves.

.13 Some activities in the oil, gas and mineral extraction industries involve jointly controlled assets; for example, a number of oil producing companies are involved in oil and gas working interest arrangements. Another example is when an oil producing company jointly controls and operates an oil pipeline. Each investor uses the pipeline to transport its own product, in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of jointly controlled assets is when two enterprises jointly control rental property, each taking a share of the rents received and bearing a share of the expenses.

Jointly controlled enterprises

.14 A jointly controlled enterprise is a joint arrangement that involves the establishment of a corporation, partnership or other enterprise in which each investor has an interest. The enterprise operates in the same way as other enterprises, except that a contractual arrangement between the investors establishes joint control over the economic activity of the enterprise.

.15 In a jointly controlled enterprise, each investor usually contributes cash or other resources to the joint arrangement. The jointly controlled enterprise owns the assets of the joint arrangement, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise financing for the purposes of the joint arrangement activity. Each investor is entitled to a share of the income of the jointly controlled enterprise, although some jointly controlled enterprises also involve a sharing of the output of the joint arrangement. An example of a jointly controlled enterprise is when two or more enterprises combine their activities in a particular line of business by transferring the relevant assets and liabilities into a jointly controlled enterprise.

JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

.16 An investor in jointly controlled operations or jointly controlled assets has rights to the individual assets and obligations for the individual liabilities relating to the joint arrangement.

Recognition

.17 ♦ *An investor in a jointly controlled operation shall recognize*:

(a) in its balance sheet, the assets that it controls and the liabilities that it incurs; and

(b) in its income statement, its share of the revenue of the joint arrangement and its share of the expenses incurred by the joint arrangement.

.18 ♦ *An investor in jointly controlled assets shall recognize*:

(a) in its balance sheet, its share of the jointly controlled assets and its share of any liabilities incurred jointly with the other investors in relation to the joint arrangement; and

(b) in its income statement, any revenue from the sale or use of its share of the output of the joint arrangement, and its share of any expenses incurred by the joint arrangement.

Contributions and transactions

.19 ♦ *When an investor transfers assets to a joint arrangement that consists of jointly controlled operations or jointly controlled assets and receives in exchange an interest in the joint arrangement that includes joint control, or sells assets to such a joint arrangement in the normal course of operations, any gain or loss that occurs shall be recognized in income at the time of the transfer or sale to the extent of the interests of the other non-related investors. When such a transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor shall recognize this decline by writing down that portion of the assets retained through its interest in the joint arrangement and recognize the full amount of any loss in income.*

.20 When an investor transfers assets such as property, plant or equipment to a joint arrangement that consists of jointly controlled operations or jointly controlled assets in place of, or in addition to, any other contribution in exchange for an interest in the joint arrangement that includes joint control, and perhaps other assets, the investor gives up control over the assets transferred and acquires joint control over these assets. The joint control arrangement binding the investors is an arm's length arrangement between the investors that establishes the sharing of control over the joint arrangement. Accordingly, the contributing investor is considered to be dealing at arm's length with the other non-related investors. On this basis, an investor's contribution to such a joint arrangement is an arm's length transaction measured at fair value between the investor and the other non-related investors. On these grounds, the contributing investor shall recognize that portion of the gain or loss attributable to the interest of the other non-related investors. That portion of the gain or loss recognized is accounted for in accordance with paragraph 3056.19. However, the existence of a loss at the time of the transfer would usually provide evidence of an impairment loss in the portion of the relevant assets retained by the investor through its interest in the joint arrangement and this decline in value is recognized by writing down that portion of the assets retained. For example, when a loss occurs at the time of the transfer of capital assets to a joint arrangement that consists of jointly controlled operations or jointly controlled assets, any write-down of the portion of the capital assets retained by the investor through its interest in the joint arrangement shall be determined in accordance with GOODWILL AND INTANGIBLE ASSETS, Section 3064, and IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063.

.21 Except as required in paragraph 3056.19, the portion of the gain or loss attributable to the investor's interest in the arrangement or to the interest of other related investors is recognized by the investor when the asset is sold by the joint arrangement to a third party or realized through the operations of the joint arrangement.

.22 When a new investor and existing investors are not related parties (see RELATED PARTY TRANSACTIONS, Section 3840) prior to the contribution to a joint arrangement of non-monetary assets, other than product or property held for sale in the normal course of operations to facilitate sales to customers, the change in control of the assets generally constitutes a change in the risk of the cash flows the investors expect to receive. Accordingly, the contribution has commercial substance and is measured at fair value provided the fair value is reliably measurable (see NON-MONETARY TRANSACTIONS, Section 3831). When the investors are related parties, the contribution is accounted for as a non-monetary transaction in accordance with Section 3840.

.23 The substance of a transaction in the normal course of operations between an investor and a joint arrangement that consists of jointly controlled operations or jointly controlled assets and in which it has joint control would be examined to determine if the criteria for revenue recognition have been satisfied, such as the transfer of the significant risks and rewards of ownership (see REVENUE, Section 3400).

.24 An investor may sell assets in the normal course of operations to a joint arrangement that consists of jointly controlled operations or jointly controlled assets and in which the investor has joint control. If a gain or loss results to the investor, the gain or loss is considered to have been realized to the extent of the interest of the other non-related investors and recognition of that proportion is appropriate. The portion of the gain or loss attributable to the investor's interest in the arrangement or to the interest of other related investors is recognized when the asset is sold to a third party. However, when a sale to a joint arrangement has given rise to a loss, the investor recognizes the full loss in income immediately when the transaction provides evidence of a reduction in the net realizable value, or a decline in the value, of the relevant assets.

.25 ♦*When an investor purchases assets in the normal course of operations from a joint arrangement that consists of jointly controlled operations or jointly controlled assets and in which it has joint control, the investor shall not recognize its share of the profit or loss of the joint arrangement on the transaction until the assets are sold to a third party. However, when the transaction provides evidence of a reduction in the net realizable value, or a decline in the value of the relevant assets, the investor shall recognize its share of the loss in income immediately.*

.26 When an investor purchases assets in the normal course of operations from a joint arrangement that consists of jointly controlled operations or jointly controlled assets and in which it has joint control, the investor cannot recognize a profit on a transaction with itself. Therefore, the investor does not recognize the portion of the joint arrangement profit that relates to its interest in the joint arrangement until the assets are sold to a third party. When a transaction has given rise to a loss, the investor recognizes its share of the loss in the same way as profits, except that losses are recognized in income immediately when the transaction provides evidence of a reduction in the net realizable value, or a decline in the value, of the relevant assets.

JOINTLY CONTROLLED ENTERPRISES

.27 An investor in a jointly controlled enterprise generally has rights to the net assets of the joint arrangement rather than rights to the individual assets and obligations for the individual liabilities.

.28 Some jointly controlled enterprises are similar in substance to those joint arrangements referred to as jointly controlled operations or jointly controlled assets. For example, the investors may transfer a jointly controlled asset, such as an oil pipeline, into a jointly controlled enterprise, for tax or other reasons. Similarly, the investors may transfer into a jointly controlled enterprise assets that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled enterprise to deal with particular aspects of the activity (for example, the design, marketing, distribution or after-sales service of the product).

Recognition

.29 ♦ *An investor with an interest in a jointly controlled enterprise shall account for its interest in accordance with its rights and obligations arising from the joint arrangement.*

.30 *An investor with an interest in the net assets of a jointly controlled enterprise shall make an accounting policy choice to account for those interests using:*

(a) the equity method (as defined in INVESTMENTS, Section 3051); or

(b) the cost method (as defined in INVESTMENTS, Section 3051).

An investor shall account for all interests in the net assets of jointly controlled enterprises using the same method. In making this accounting policy choice, the investor need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

.31 ♦ *An investor with an interest in a jointly controlled enterprise that has rights to the individual assets and obligations for the individual liabilities relating to the joint arrangement shall account for that interest in accordance with paragraphs 3056.17-.18.*

.32 When a jointly controlled enterprise becomes a subsidiary of the investor because the investor has acquired control over the enterprise, the requirements of SUBSIDIARIES, Section 1591, apply.

.33 When an investor ceases to have joint control over a jointly controlled enterprise (for example, when severe long-term restrictions are imposed on the ability of the jointly controlled enterprise to distribute its earnings to the investors), the investor accounts for its interest in accordance with INVESTMENTS, Section 3051, or FINANCIAL INSTRUMENTS, Section 3856, as appropriate.

.34 An interest in a jointly controlled enterprise that is intended for disposal would continue to be recognized in the financial statements of the investor in accordance with paragraphs 3056.29-.31 until such time as the investor ceases to have joint control over the jointly controlled enterprise. The provisions of DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, would apply if the interest to be disposed of meets the criteria in that Section to be classified as held for sale.

Contributions and transactions

.35 ♦ *An investor with an interest in the net assets of a joint arrangement shall account for its contributions to and transactions with the joint arrangement in accordance with* INVESTMENTS*, Section 3051.*

PRESENTATION

.36 ♦ *The following shall be presented separately in the balance sheet:*

(a) subsidiaries and interests in joint arrangements accounted for using the equity method;
(b) subsidiaries and interests in joint arrangements accounted for at cost;
(c) investments in companies subject to significant influence; and
(d) other investments accounted for at cost.

.37 ♦ *Income from investments in the following shall be presented separately in the income statement:*

(a) subsidiaries and interests in joint arrangements accounted for using the equity method;
(b) subsidiaries and interests in joint arrangements accounted for at cost;
(c) investments in companies subject to significant influence; and
(d) other investments accounted for at cost.

.38 A significant factor in evaluating the investment income is the relationship of the income reported to the investments from which such income is derived. For this reason, investments reported in the balance sheet and investment income reported in the income statement are grouped in the same way.

DISCLOSURE

.39 ♦ *The basis used to account for an investor's interests in joint arrangements shall be disclosed.*

.40 ♦ *An investor shall provide a listing and description of interests in significant joint arrangements including the names, carrying values and proportion of ownership interests held in each joint arrangement.*

.41 ♦ *An investor shall disclose its share of any contingencies and commitments of joint arrangements and those contingencies that exist when the investor is contingently liable for the liabilities of the other investors of the joint arrangements.*

.42 Separate disclosure of the investor's share of any contingencies and commitments of joint arrangements would include, as appropriate, the investor's share of any contingencies and commitments of joint arrangements and the investor's responsibility for the other investors' share of the contingencies of joint arrangements. If an investor guarantees more than its share of a joint arrangement's liabilities, such a guarantee would be disclosed (see CONTRACTUAL OBLIGATIONS, Section 3280, and CONTINGENCIES, Section 3290).

.43 ♦ *For joint arrangements accounted for using the cost or equity method, an investor shall also provide the disclosures required by* INVESTMENTS*, Section 3051.*

.44 Other disclosure requirements are contained in other Sections, such as RELATED PARTY TRANSACTIONS, Section 3840.

EFFECTIVE DATE AND TRANSITION

.45 This Section applies to annual financial statements for fiscal years beginning on or after January 1, 201X. Earlier application is permitted. If an investor applies this Section before January 1, 201X, it discloses that fact and applies INVESTMENTS, Section 3051, at the same time.

Transition from proportionate consolidation to the equity or cost method

.46 When changing from proportionate consolidation to the equity or cost method, an investor recognizes its investment in the joint arrangement as at the beginning of the earliest period presented. That initial investment is measured as the aggregate of the carrying amounts of the assets and liabilities that the investor had previously proportionately consolidated, including any goodwill arising from acquisition. The investor allocates any goodwill to the joint arrangement on the basis of the relative carrying amounts of the joint arrangement and the reporting unit to which it belonged. This approach is consistent with that for the allocation of goodwill on the disposal of a portion of a reporting unit in GOODWILL AND INTANGIBLE ASSETS, Section 3064.

.47 An investor assesses whether the opening balance of the investment is impaired in accordance with the impairment provisions in INVESTMENTS, Section 3051. Any impairment loss is recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.

.48 If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, an investor assesses whether it has obligations in relation to the negative net assets and, if so, the investor recognizes the corresponding liability. If the investor concludes that it does not have obligations in relation to the negative net assets, it does not recognize a liability but adjusts opening retained earnings at the beginning of the earliest period presented.

.49 After initial recognition, an investor accounts for its investment in the joint arrangement using the equity or cost method in accordance with INVESTMENTS, Section 3051.

.50 An investor discloses a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the earliest period presented, together with any adjustment to opening retained earnings made in accordance with paragraph 3056.48. That disclosure is prepared in an aggregated manner for all joint arrangements for which an investor applies the transition requirements referred to in paragraphs 3056.46–.50.

Transition from the equity or cost method to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement

.51 When changing from the equity or cost methods to accounting for the investor's interests in the individual assets and liabilities of a joint arrangement, an investor measures the assets and liabilities of that joint arrangement using one of the following methods:

(a) The investor applies this Section retrospectively in accordance with ACCOUNTING CHANGES, Section 1506.

(b) The investor uses the carrying amounts of the assets and liabilities in the financial statements of the joint arrangement at the beginning of the fiscal year immediately preceding the date at which this Section is applied for the first time. In addition, the investor recognizes, as an adjustment to opening retained earnings, any difference between the net amount of the assets and liabilities of the joint arrangement included in its balance sheet and the amount of any previously recognized interest in the joint arrangement.

(c) The investor uses the fair values of the tangible assets and liabilities of the joint arrangement at the beginning of the fiscal year immediately preceding the date at which this Section is first applied. In addition, the investor recognizes, as an adjustment to opening retained earnings, any difference between the net amount of the tangible assets and liabilities of the joint arrangement included in its balance sheet and the amount of any previously recognized interest in the joint arrangement.

Investments, Section 3051

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PURPOSE AND SCOPE

.01 This Section establishes standards for:

(a) investments subject to significant influence; and
(b) measuring and disclosing certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes).

.02 SUBSIDIARIES, Section 1591, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056, provide an accounting policy choice to use the equity method or the cost method in accordance with this Section for certain investments.

.03 Except as specified by paragraph 3051.02, this Section does not apply to:

(a) subsidiaries or interests in joint arrangements;
(b) financial instruments within the scope of FINANCIAL INSTRUMENTS, Section 3856; or
(c) investments held by investment companies (see ACCOUNTING GUIDELINE AcG-18, Investment Companies).

DEFINITIONS

.04 The following terms are used in this Section with the meanings specified:

(a) The **equity method** is a basis of accounting for investments whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the investor's pro rata share of post-acquisition earnings of the investee, computed by the consolidation method. The amount of the adjustment is included in the determination of net income by the investor, and the investment account of the investor is also increased or decreased to reflect the investor's share of capital transactions and changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from an investee reduce the carrying value of the investment.
(b) The **cost method** is a basis of accounting for investments whereby the investment is initially recorded at cost; earnings from such investments are recognized only to the extent received or receivable.
(c) **Dividends** refer to those dividends paid or payable in cash or other assets, and do not include distributions of shares unless the effect is to change the equity interests of two or more classes of shares.

INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

.05 Significant influence differs from control and joint control (see SUBSIDIARIES, Section 1591, and INTERESTS IN JOINT ARRANGEMENTS, Section 3056). An investor may be able to exercise significant influence over the strategic operating, investing and financing policies of an investee even when the investor does not control or jointly control the investee. For example, the ability to exercise significant influence may be indicated by representation on the board of directors, participation in policy-making processes, material intercompany transactions, interchange of managerial personnel or provision of technical information. If the investor holds less than 20 percent of the voting interest in the investee, it is presumed that the investor does not have the ability to exercise significant influence, unless such influence is clearly demonstrated. On the other hand, the holding of 20 percent or more of the voting interest in the investee does not in itself confirm the ability to exercise significant influence. A substantial or majority ownership by another investor would not necessarily preclude an investor from exercising significant influence.

.06 ♦ *An investor that is able to exercise significant influence over an investee shall make an accounting policy choice to account for the investment using either:*

(a) the equity method; or

(b) the cost method.

An investor shall account for all investments subject to significant influence using the same method. In making this accounting policy choice, an investor need not meet the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b).

.07 ♦ *When an investee's equity securities are quoted in an active market, the investment shall be accounted for using the equity method or at its quoted amount with changes recorded in net income. Under these circumstances, the investment shall not be accounted for using the cost method.*

Equity method

.08 ♦ *Investment income, as calculated by the equity method, shall be the investor's share of the income or losses of the investee.*

.09 ♦ *In accounting for an investment by the equity method, the investor's share of the investee's discontinued operations, changes in accounting policy, corrections of errors relating to prior period financial statements and capital transactions shall be presented in the investor's financial statements according to their nature.*

.10 In those situations in which the investor has the ability to exercise significant influence, shareholders would be informed of the results of operations of the investee, and it is appropriate to include in the results of operations of the investor its share of the income or losses of the investee. The equity method of accounting for the investment provides this information.

.11 Depreciation and amortization of investee assets are based on the assigned costs of such assets at the date(s) of acquisition. The portion of the difference between the investor's cost and the amount of its underlying equity in the net assets of the investee that is similar to goodwill (equity method goodwill) is not amortized. No part of an impairment write-down of an investment accounted for by the equity method is presented in the income statement as a goodwill impairment loss (see GOODWILL AND INTANGIBLE ASSETS, Section 3064).

.12 The investment account of the investor reflects:

(a) the cost of the investment in the investee;
(b) the investment income or loss (including the investor's share of discontinued operations) relating to the investee subsequent to the date when the use of the equity method first became appropriate;
(c) the investor's share of a change in an accounting policy, a correction of an error relating to prior period financial statements and capital transactions of the investee subsequent to the date when the use of the equity method first became appropriate; and
(d) the investor's proportion of dividends paid by the investee subsequent to the date when the use of the equity method first became appropriate.

.13 Presentation of the individual steps involved in the calculation of investment income on the equity method includes a duplication of much of CONSOLIDATED FINANCIAL STATEMENTS, Section 1601, which deals with consolidations. However, the investor's share of any discontinued operations, changes in accounting policy, corrections of errors relating to prior period financial statements or capital transactions of the investee is presented and disclosed separately, according to its nature, in the investor's financial statements.

.14 ♦ *When an investor transfers assets to an equity-accounted investee in exchange for an interest in the investee, or sells assets to an equity-accounted investee in the normal course of operations, any gain or loss that occurs shall be recognized in income at the time of the transfer or sale to the extent of the interests of the other non-related investors. When such a transaction provides evidence of a reduction in the net realizable value or a decline in the carrying amount of the relevant assets, the investor shall recognize this decline by writing down that portion of the assets retained through its interest in the equity-accounted investee and recognize the full amount of any loss in income.*

.15 Except as required in paragraph 3051.14, the portion of the gain or loss attributable to the investor's interest in the equity-accounted investee or to the interest of other related investors is recognized by the investor when the asset is sold by the equity-accounted investee to a third party or realized through the operations of the equity-accounted investee.

.16 When a new investor and existing investors are not related parties (see RELATED PARTY TRANSACTIONS, Section 3840) prior to the transfer of non-monetary assets, other than product or property held for sale in the normal course of operations to facilitate sales to customers, the change in control of the assets generally constitutes a change in the risk of the cash flows the investors expect to receive. Accordingly, the transaction has commercial substance and is measured at fair value, provided the fair value is reliably measurable (see NON-MONETARY TRANSACTIONS, Section 3831). When the investors are related parties, the transaction is accounted for as a non-monetary transaction in accordance with Section 3840.

.17 ♦ *When an investor purchases assets in the normal course of operations from an equity-accounted investee, the investor shall not recognize its share of the profit or loss of the investee on the transaction until the assets are sold to a third party. However, when the transaction provides evidence of a reduction in the net realizable value, or a decline in the value of the relevant assets, the investor shall recognize its share of the loss in income immediately.*

.18 *An investor's share of losses in excess of the carrying amount of the investment shall be recorded if:*

(a) the investor has guaranteed the obligations of the investee;

(b) the investor is otherwise committed to provide further financial support to the investee; or
(c) the investee seems assured of imminently returning to profitability.

.19 ♦ *When an investor ceases to be able to exercise significant influence over an investee, the investor shall account for the investment as follows:*
(a) If the investor has obtained control of the investee, it accounts for the investment in accordance with SUBSIDIARIES, Section 1591.
(b) If the investor has obtained joint control over the net assets of the investee, it accounts for its interest in accordance with JOINT ARRANGEMENTS, Section 3056.
(c) If the investor has obtained rights to the individual assets and obligations for the liabilities of the investee, it accounts for its interests by applying the relevant standards for those assets and liabilities in accordance with JOINT ARRANGEMENTS, Section 3056.
(d) If the retained interest in the investee is a financial instrument, the investor accounts for the investment in accordance with FINANCIAL INSTRUMENTS, Section 3856.

.20 When an investor ceases to account for an investment using the equity method, cost is deemed to be the carrying value of the investment at that time. Consideration is given to whether the carrying value requires adjustment to reflect an impairment in value (see paragraphs 3051.23-.27).

OTHER INVESTMENTS

.21 ♦ *The cost method shall be used in accounting for investments within the scope of this Section other than those for which the investor is able to exercise significant influence over an investee.*

.22 These types of investments include certain other non-financial instrument investments such as works of art and other tangible assets held for investment purposes.

IMPAIRMENT OF AN INVESTMENT

.23 ♦ *At the end of each reporting period, an investor shall assess whether there are any indications that an investment may be impaired. When there is an indication of impairment, an investor shall determine whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the investment.*

.24 Indicators of impairment include:
(a) significant financial difficulty of the investee;
(b) it becoming probable that the investee will enter bankruptcy or other financial reorganization;
(c) the disappearance of an active market for shares of the investee because of financial difficulties; and
(d) a significant adverse change in the technological, market, economic or legal environment in which the investee operates, or in the market to which an asset is dedicated (for example, a sharp decline in the price of a commodity that may cause economic instability in the investee's industry).

.25 ♦ *When an investor identifies a significant adverse change in the expected timing or amount of future cash flows from an investment, it shall reduce the carrying amount of the investment to the higher of the following:*

(a) the present value of the cash flows expected to be generated by holding the investment, discounted using a current market rate of interest appropriate to the asset; and
(b) the amount that could be realized by selling the asset at the balance sheet date.

The carrying amount of the investment shall be reduced directly or through the use of an allowance account. The amount of the reduction shall be recognized as an impairment loss in net income.

.26 ♦ *When the extent of impairment of a previously written down investment decreases and the decrease can be related to an event occurring after the impairment was recognized (such as a return to profitability of the investee), the previously recognized impairment loss shall be reversed to the extent of the improvement. The adjusted carrying amount of the investment shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal shall be recognized in net income in the period the reversal occurs.*

.27 Paragraph 3051.26 does not apply to investments carried at fair value in accordance with paragraph 3051.07, since changes in value are recognized each period as a result of the remeasurement of the investment to fair value.

GAINS AND LOSSES ON SALES OF INVESTMENTS

.28 ♦ *For the purposes of calculating a gain or loss on the sale of an investment, the cost of the investment sold shall be calculated on the basis of the average carrying value.*

.29 Under the average carrying value method, the gain or loss is properly recognized as being part of the ultimate gain or loss on the entire holding of each investment, and is more likely to be representative of the ultimate entire gain or loss.

.30 An investor's interest in an investee may be diluted, for example, because the investee issues additional shares to third parties. Gains and losses resulting from a dilution in an investor's investment in an investee accounted for using the equity method are recognized in income, consistent with the accounting for a gain or loss arising on the sale of a portion of an investment.

PRESENTATION

.31 ♦ *The following shall be presented separately on the balance sheet:*

(a) subsidiaries and interests in joint arrangements accounted for using the equity method;
(b) subsidiaries and interests in joint arrangements accounted for at cost;
(c) investments in companies subject to significant influence accounted for using the equity method; and
(d) other investments accounted for at cost.

.32 ♦ *Income from investments in:*

(a) subsidiaries and interests in joint arrangements accounted for using the equity method;
(b) subsidiaries and interests in joint arrangements accounted for at cost;
(c) investments in companies subject to significant influence accounted for using the equity method; and
(d) other investments accounted for at cost;

shall be presented separately in the income statement.

.33 A significant factor in evaluating the investment income is the relationship of the income reported to the investments from which such income is derived. For this reason, investments reported in the balance sheet and investment income reported in the income statement are grouped in the same way.

DISCLOSURE

.34 ♦ *The basis used to account for investments shall be disclosed.*

.35 ♦ *When the fiscal periods of an investor and an investee are not coterminous and the equity method is used to account for the investee, events relating to, or transactions of, the investee that have occurred during the intervening period and significantly affect the financial position or results of operations of the investor shall be disclosed. This disclosure is not necessary if these events or transactions are recorded in the financial statements.*

.36 ♦ *An investor that elects to account for its investments using the equity method shall disclose the fair value of an investment when it is quoted in an active market.*

.37 ♦ *An investor shall provide a listing and description of significant investments, including the names, carrying values and proportion of ownership interests held in each investment.*

.38 ♦ *An investor shall disclose the carrying amount of impaired assets, by type of asset, and the amount of related allowance for impairment.*

EFFECTIVE DATE AND TRANSITION

.39 Except as specified in paragraphs 3051.40-.41, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.40 Paragraph 3051.30 may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 2013. Earlier application is permitted.

.41 Paragraphs 3051.14-.17 may be applied prospectively, as defined in ACCOUNTING CHANGES, paragraph 1506.05(g), to annual financial statements relating to fiscal years beginning on or after January 1, 201X. Earlier application is permitted. If an investor applies this Section before January 1, 201X, it discloses that fact and applies JOINT ARRANGEMENTS, Section 3056, at the same time.

CONSEQUENTIAL AMENDMENTS

The following significant consequential amendments have been identified. Additional text is denoted by underlining and deleted text by strikethrough.

FIRST-TIME ADOPTION, Section 1500

Exemptions from other standards

.09 An entity may elect to use exemptions related to one or more of the following:

…

(i) joint arrangements (see paragraph 1500.25A); and

(j) investments (see paragraph 1500.25B).

Joint arrangements

.25A A first-time adopter may apply the transitional provisions in JOINT ARRANGEMENTS, Section 3056.

Investments

.25B A first-time adopter may apply the transitional provision in INVESTMENTS, paragraph 3051.41.