Joint Arrangements, Sections 3051 and 3056 — Background Information and Basis for Conclusions

Foreword

In September 2014, the Accounting Standards Board (AcSB) released INTERESTS IN JOINT ARRANGEMENTS, Section 3056, and amendments to INVESTMENTS, Section 3051 in Part II of the CPA Canada Handbook – Accounting. The AcSB has approved for publication the contents of this document setting out its rationale for this standard and the amendments.

Background Information and Basis for Conclusions documents are sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 in Part II of the Handbook. These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Sections.

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INTRODUCTION

1 This document summarizes considerations that were deemed significant by the members of the Accounting Standards Board (AcSB) in reaching their conclusions in developing INTERESTS IN JOINT ARRANGEMENTS, Section 3056, and amendments to INVESTMENTS, Section 3051 in Part II of the CPA Canada Handbook – Accounting. Section 3056 replaces INTERESTS IN JOINT VENTURES, Section 3055. This document sets out the reasons the AcSB undertook the project to develop this material, the process of research and deliberation, the key decisions made, and the principal reasons for adopting the positions taken and rejecting others. Individual AcSB members gave greater weight to some factors than to others.

2 Nothing in this document is to be taken as overriding the requirements of the CPA Canada Handbook – Accounting. However, the discussion may help readers understand how the AcSB reached its conclusions in developing the standards and the AcSB's intent with respect to its interpretation and application.

BACKGROUND

3 Under Section 3055, an investor could choose to account for its interests in joint ventures (now called joint arrangements) using proportionate consolidation method, the cost method or the equity method. This accounting policy choice maintains the differential reporting option in the pre-changeover standards in Part V of the Handbook.

4 In its initial discussions on the Joint Arrangements project, the AcSB observed that the accounting policy choices noted in the previous paragraph 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 cost or equity method results in not recognizing assets the investor controls and not recognizing obligations for which the investor is liable.

5 After consulting with the Private Enterprise Advisory Committee, the AcSB decided to replace the existing free choice in accounting for joint arrangements with a focus on representational faithfulness, as described in FINANCIAL STATEMENT CONCEPTS, Section 1000, and on the substance of the transaction. As discussed in paragraph 22, the AcSB also included a simplified method of accounting for an interest in a jointly controlled enterprise. The AcSB thinks these changes will significantly improve the understandability, comparability and transparency of financial reporting for joint arrangement by private enterprises.

DEVELOPMENT OF SECTION 3056 AND THE AMENDMENTS TO SECTION 3051

6 Section 3056, which replaces Section 3055, carries forward much of the content of Section 3055. The AcSB used Section 3055 as a starting point and incorporated specific significant improvements into Section 3056, including eliminating the free choice in accounting for joint arrangements and simplifying the accounting for contributions and transactions. The AcSB was not aware of significant concerns with other aspects of Section 3055 in practice and did not receive information or recommendations from its Private Enterprise Advisory Committee that indicated such concerns. Consequently, most of the content of Section 3055 was retained, including the definitions and the guidance on impairment, presentation and disclosure.

7 The key change made to Section 3051 was to add guidance on contributions and transactions between an investor and an equity-accounted investee that is consistent with the guidance in Section 3056. The reason for this change was that the AcSB thought 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. This also provides clearer guidance than existed in Section 3051.

8 The AcSB also decided to amend certain other paragraphs in Section 3051 as part of its Joint Arrangements project, rather than as part of the annual improvements process. The AcSB thought it would be less confusing to stakeholders if all proposed amendments to Section 3051 were bundled together for purposes of exposure and were then incorporated into the Handbook at the same time. These clarifications are described in paragraphs 29-30.

9 Throughout the development of the standard, the AcSB followed its due process. This process included:

(a) ongoing input from its Advisory Committee;

(b) issuance in August 2013 of the Exposure Draft, "Joint Arrangements and Investments," proposing to replace former Section 3055 with new Section 3056 and amending Section 3051;

(c) analysis and consideration of feedback received through written responses to the Exposure Draft (8 comment letters); and

(d) follow-up discussions with respondents to obtain additional feedback.

10 The issues considered by the AcSB in developing the Exposure Draft and the conclusions on the more significant issues raised by stakeholders of private enterprises are discussed below. This discussion includes the anticipated effects on stakeholders that were considered by the AcSB in developing the standards.

11 Respondents to the Exposure Draft comprised one preparer, a technical working group on accounting standards for private enterprises and public accounting firms. The AcSB reminds stakeholders that as part of its due process related to Part II of the Handbook, it makes available a public file of materials relating to completed projects, which includes response letters received, unless confidentiality is requested.

12 The majority of respondents generally expressed agreement with the Exposure Draft proposals relating to Section 3056. All respondents agreed with the proposals relating to Section 3051 and no clarifications or other improvements to Section 3051 were suggested.

APPLICABILITY TO NOT-FOR-PROFIT ORGANIZATIONS

13 REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4450 in Part III of the Handbook allows a not-for-profit organization a choice to account for an interest in a joint venture using the proportionate consolidation method. While developing Section 3056 and the amendments to Section 3051 for Part II of the Handbook, the AcSB wanted to ensure that the accounting for not-for-profit organizations applying Section 4450 in Part III remains unchanged.

14 The AcSB and the Public Sector Accounting Board (PSAB) are working together to improve not-for-profit standards to better meet users' needs. As such, the AcSB decided not to change the accounting for joint ventures in Section 4450 as part of the current project, but to consider this together with other changes to Section 4450 when a comprehensive project to review Part III of the Handbook is completed.

RECOGNITION OF AN INTEREST IN A JOINT ARRANGEMENT

15 As noted above, under Section 3055, an investor could choose to account for its interests in joint ventures using proportionate consolidation, the cost or equity method. In developing the Exposure Draft proposals, the AcSB concluded 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 would ensure that an investor's interest in a joint arrangement is accounted for based on the substance of the transaction. The AcSB noted that this was the key principle adopted by the IASB in IFRS 11 *Joint Arrangements*, issued in May 2011.

16 The AcSB's policy is for the standards in Part II of the Handbook to meet the needs of private enterprises and users of their financial statements and to amend the standards when this would provide significant benefit and meet the cost / benefit constraint. The AcSB decided that the key principal underlying IFRS 11 *Joint Arrangements* meets these criteria, but that adopting IFRS 11 in its entirety would require changes that would not be of significant benefit and would not meet the cost / benefit constraint. Therefore, when the AcSB issued the Exposure Draft, it decided to incorporate the key principle from IFRS 11, while carrying forward much of the existing content of Section 3055.

17 Consequently, the Exposure Draft proposed 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 would be 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 recognized its portion of the assets and liabilities of the joint arrangement based on the investor's ownership interest in the joint arrangement. This could differ from the investor's rights to the individual assets and obligations for the liabilities as specified in the joint arrangement contract. In many cases, accounting for the investor's direct interests in assets and obligations for liabilities would produce the same accounting result as proportionate consolidation.

18 The Exposure Draft noted that an interest in a jointly controlled enterprise generally provides the investor with an interest in the net assets of the jointly controlled enterprise, and proposed that the investor should account for such an interest in accordance with INVESTMENTS, Section 3051. Section 3051 provides an accounting policy choice to use either the cost or equity method. In some cases, however, an 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, it was proposed that the investor would 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).

19 A couple of respondents did not support the proposals in the Exposure Draft and thought that an entity should continue to have the accounting policy choice to account for all investments in joint arrangements using proportionate consolidation, the cost method, or the equity method. They thought that the accounting options in Section 3055 were appropriate and provided users with the information needed to make decisions. They also thought that any potential benefits from the changes would not justify the costs to private enterprises of implementing those changes. These respondents were also concerned that the proposals were based on IFRS 11 *Joint Arrangements*, which has only recently been adopted, and for which a number of application issues are already arising.

20 Another respondent was concerned that there is an apparent inconsistency between the proposed guidance for jointly controlled enterprises and the guidance for controlled entities. SUBSIDIARIES, Section 1591, provides an accounting policy choice to apply the cost or equity method to an entity controlled by the investor (i.e., a subsidiary). However, under the Exposure Draft proposals, an investor would not be able to apply the cost or equity method to an investment in a jointly controlled enterprise when the investor has an interest in the individual assets and liabilities. The respondent questioned why a simplification of using the cost or equity method should be permitted for subsidiaries, but not for those interests in jointly controlled enterprises where an investor has an interest in the individual assets and liabilities.

Since private enterprise standards permit the use of the cost or equity method for subsidiaries, the respondent thought that the use of the cost or equity method should be permitted for all interests in jointly controlled enterprises.

21 To address the concerns discussed above, the AcSB considered requiring all jointly controlled enterprises to be accounted for using either the cost or equity method. This simplification would also address concerns over the complexity in determining whether an interest in a jointly controlled enterprise should be accounted for as an interest in net assets or an interest in individual assets and obligations. However, the "cost" of this simplification is that the information in the financial statements would not be representationally faithful for an interest in a jointly controlled enterprise that represents an interest in the individual assets and obligations for the liabilities of the joint arrangement.

22 The AcSB decided to permit all jointly controlled enterprises to be accounted for using the cost or equity method. This option is consistent with the accounting policy choice for controlled entities in Section 1591. It would allow an investor in a jointly controlled enterprise to avoid the complexity of determining whether the interest should be accounted for as an interest in net assets or an interest in individual assets and obligations. However, the AcSB thought it was also important to give an investor with an interest in the individual assets and liabilities of a jointly controlled enterprise the option to account for those individual assets and liabilities, if it thinks this provides more useful information to users. Therefore, the AcSB also decided to permit an investor with an interest in a jointly controlled enterprise an accounting policy choice to perform an analysis to determine whether its interest is in the individual assets and liabilities, rather than an interest in the net assets. If that analysis shows the interest is in the individual assets and liabilities, then the investor would be required to account for those individual assets and liabilities.

23 The AcSB also agreed that additional application guidance would be required for investors in jointly controlled enterprises who choose to perform the analysis, as described above, to determine the type of interest they have (i.e., an interest in net assets or in individual assets and liabilities). This determination is critical because it drives the method of accounting. Accordingly, the AcSB decided to add application guidance to Section 3056.

24 The users on the Private Enterprise Advisory Committee agreed with the approach discussed in paragraphs 22-23. They recognized that the cost and equity methods provide less information about the investee than recognizing individual assets and liabilities. However, there is a disclosure requirement that specifies that reporting enterprises must provide, in the notes to their financial statements, 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. Users can request additional information about the assets and liabilities related to interests in jointly controlled enterprises if they require it.

25 The AcSB also decided to retain the proposal in the Exposure Draft that required investors to account for their interests in jointly controlled assets and jointly controlled operations not held through a jointly controlled enterprise by recognizing those interests in the individual assets, obligations, revenues and expenses of the joint arrangement. The AcSB concluded that using the cost or equity method to account for interests in joint arrangements that gives investors rights to individual assets and obligations for liabilities of the joint arrangement does not provide users of financial statements with sufficient information. In these circumstances, using the cost or equity method results in not recognizing assets the investor controls and not recognizing obligations for which the investor is liable. This information can be important to users, although it may involve more effort and cost to prepare financial statements.

CONTRIBUTIONS AND TRANSACTIONS

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

27 Section 3055 addressed how to account for contributions and transactions between an investor and a joint venture when proportionate consolidation was used but not how to account for such transactions when the equity method was used. The AcSB received feedback from financial statement preparers that the 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 is often not well understood. The AcSB was also informed that, in many cases, the guidance in Section 3055 relating to contributions and transactions was being applied by investors in joint arrangements that account for their interests using the equity method.

28 The AcSB decided that the recognition and measurement of gains and losses resulting from contributions and transactions between an investor and a joint arrangement accounted for using the equity method should be the same as when the joint arrangement is in the form of jointly controlled operations and jointly controlled assets. The AcSB also thought that gains and losses resulting from contributions and transactions between an investor and a joint arrangement accounted for using the equity method should be recognized and measured consistently with gains and losses from contributions with other investments accounted for using the equity method. To achieve this, new 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 existed in Section 3051.

AMENDMENTS TO THE SCOPE OF SECTION 3051

29 The AcSB was informed that certain aspects relating to the scope of Section 3051 were unclear. Therefore, the AcSB decided to amend the wording in Section 3051 to clearly state the types of investments that Section 3051 applies and does not apply to. The AcSB also decided to amend the scope of Section 3051 to clarify that the accounting policy choice in Section 3051 to use the cost or equity method is separate from the similar accounting policy choice that is included in SUBSIDIARIES, Section 1591, for subsidiaries that are not consolidated and included in Section 3056 for interests in the net assets of a joint arrangement.

30 The accounting policy choice In Section 3051 to use either the cost or equity method stated that the same choice must be made for all investments within the scope of Section 3051. The AcSB decided to amend the wording to require that the same choice is to be made for all investments subject to significant influence, removing any implication that it applies to other investments within the scope of Section 3051.

IMPAIRMENT

31 Section 3055 included impairment guidance for interests in joint arrangements measured using the cost or equity method that is substantially the same as that in Section 3051. Section 3056 requires that interests in joint arrangements measured using the cost or equity method be accounted for in accordance with Section 3051. Consequently, the AcSB decided that the guidance on impairment from Section 3055 would not be included in Section 3056 because this would be an unnecessary duplication of the guidance in Section 3051.

DEFINITIONS

Contractual Arrangement

32 One respondent to the Exposure Draft thought that the term "contractual arrangement" should be defined and examples should be provided. The AcSB disagreed and noted that paragraph 3056.07 provides sufficient information as it discusses different types of contractual arrangements. Accordingly, no changes were made.

Investor

33 One respondent to the Exposure Draft thought that the term "investor" should be defined in Section 3056 because it is unclear whether it is intended to refer to a party with joint control, a party which does not have joint control, or to both. Paragraphs 3056.17-.18 and paragraphs 3056.29-.31 refer to an investor in jointly controlled operations, jointly controlled assets and jointly controlled enterprises, but these paragraphs do not specify whether or not the investor has joint control. The AcSB agreed and decided that wording should be added to paragraphs 3056.16-.18, 3056.27, 3056.29-.31 and 3056.35 to clarify that these paragraphs relate to an investor that has joint control.

Joint control

34 The Exposure Draft proposed to carry forward the definition of joint control from Section 3055 unchanged. A few respondents to the Exposure Draft thought that the definition of joint control was somewhat unclear. They also noted that the definition of joint control in IFRS 11 *Joint Arrangements* requires unanimous consent of the parties, whereas the notion of unanimous consent is absent in Section 3056. Therefore, they suggested that the concept of "unanimous consent" from IFRS 11 be added to the definition of joint control in Section 3056. However, the AcSB was concerned that adding the concept of unanimous consent to Section 3056 could inadvertently change the application of the concept of joint control, which is not the intention of this project. Therefore, the AcSB agreed to undertake research at a future time on the definition of joint control as a separate project.

Jointly controlled operations, jointly controlled assets and jointly controlled enterprises

35 One respondent to the Exposure Draft suggested that the terms "jointly controlled assets", "jointly controlled operations" and "jointly controlled enterprises" be specifically defined and included with the other definitions in paragraph 3056.03. The AcSB noted that an explanation of these terms is carried forward from Section 3055. As no issues in practice have been identified, the AcSB decided that no further definition of these terms is required.

OTHER ISSUES

36 Respondents identified a number of other minor issues with the proposals in the Exposure Draft. One respondent suggested that paragraphs 3056.17-.18 be expanded to clarify that an investor should account for the assets, liabilities, revenues and expenses relating to its interest in a jointly controlled operation or jointly controlled asset in accordance with standards for private enterprises. The AcSB noted that these paragraphs were carried forward from Section 3055 and since they are not aware that this wording has caused issues in practice, no changes are required.

37 A couple of respondents suggested that the wording in paragraph 3056.28 be expanded to discuss the facts and circumstances that would result in the joint arrangement being classified as a jointly controlled asset or jointly controlled operation, as opposed to a jointly controlled enterprise. The AcSB noted that this paragraph was carried forward from Section 3055 and is only meant to provide examples to demonstrate when an investor in a jointly controlled enterprise has rights and obligations to individual assets and liabilities. The AcSB agreed that the wording in paragraph 3056.28 is sufficient.

38 One respondent suggested that guidance be added to Section 3056 with respect to when an investor would reassess whether it continues to have joint control of a joint arrangement or whether the classification of a joint arrangement (i.e., as a jointly controlled asset, jointly controlled operation or jointly controlled enterprise) continues to be

appropriate. The respondent was concerned that without specific guidance, private enterprises may not reconsider these concepts. In discussing this, the AcSB noted that reassessment is not unique to this standard and the need to reassess the classification of an asset or liability is not included in other private enterprise standards. All standards for balance sheet items are applied according to the facts and circumstances at the balance sheet date. The AcSB encourages the use of professional judgment and, consistent with that approach, it decided not to include reassessment guidance in Section 3056.

AMENDMENTS TO SECTION 4450

39 As previously noted, the AcSB agreed that the existing accounting for joint ventures in Section 4450 in Part III of the Handbook would be retained at this time. Changes would be considered as part of the project to reconsider several of the Part III standards, including REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4450. However, the AcSB identified a few necessary revisions to Section 4450 in order to maintain the current accounting for not-for-profit organizations.

Definitions

40 Section 4450 incorporates the concept of "proportionate consolidation", which was defined in Section 3055. However, Section 3056 no longer permits the proportionate consolidation method. Since the current objective is to keep the accounting requirements in Section 4450 unchanged, the AcSB decided to add the definition of "proportionate consolidation" in Section 3055 to the definitions in paragraph 4450.02.

41 Section 4450 also uses the term "venturer" which, like "proportionate consolidation", was defined in Section 3055. The AcSB considered whether to add the definition of "venturer" from Section 3055 to Section 4450, since this term is included in the definitions of both "proportionate consolidation" and "joint venture". The definition of "venturer" in Section 3055 included the words "has the right and ability to obtain future economic benefits from the resources of the joint venture." The AcSB thought this wording would be problematic and inappropriate for not-for-profit organizations since the words are profit oriented. Also, the AcSB was not aware of any issues that not having a definition of "venturer" in Section 4450 has caused. For these reasons, the AcSB decided not to add the definition of a "venturer" from Section 3055 into Section 4450.

Terminology

42 Section 4450 uses the terms "joint venture", which is consistent with Section 3055. However, Section 3056 replaced the term "joint venture" with "joint arrangement" to achieve consistent terminology between Parts I and II of the Handbook. In IFRS 11 *Joint Arrangements*, a joint venture is a specific type of joint arrangement that is accounted for using the equity method. However, in Section 3055, the term "joint venture" has a much broader meaning that is synonymous with the term "joint arrangement" in IFRS 11. The AcSB thought that having different meanings for a joint venture in Parts I and II of the Handbook would be confusing.

43 The AcSB recognized that replacing the term "joint venture" with "joint arrangement" would achieve consistency between Parts II and III of the Handbook. However, they thought that introducing new terminology into Part III would cause those using Part III standards to think that something substantive has changed, which is not the case. The AcSB also acknowledged that by retaining the proportionate consolidation method in Section 4450, there is already a difference between Parts II and III of the Handbook. Therefore, to preserve the status quo and minimize changes made to Section 4450, the AcSB decided to retain the term "joint venture" in Section 4450.

DISCLOSURES

44 In developing the Exposure Draft proposals, the AcSB was not aware of any issues with the existing disclosure requirements in Sections 3051 and 3055 and, therefore, they were retained and no new disclosures were proposed. One respondent to the Exposure Draft suggested that additional disclosures should be added to Section 3056 as a consequence of the proposed changes to the accounting for joint arrangements. The AcSB discussed the need for additional disclosures but noted that the basic changes proposed to the accounting for joint arrangements are to restrict the current accounting policy choices, rather than to change the accounting under any of these choices. Therefore, the AcSB reaffirmed its prior conclusion that no additional disclosures were needed.

45 Section 3055 required disclosure of the basis used to account for an investor's interests in joint arrangements, which assumed the same basis of accounting is used for all joint arrangements. However, this is no longer the case since only jointly controlled enterprises are given an accounting policy choice in the method of accounting. An investor with an interest in jointly controlled operations or jointly controlled assets now must recognize in its financial statements its share of the assets, liabilities, revenues and expenses of the joint arrangement. Therefore, the AcSB decided to only require disclosure of the basis used to account for an investor's interest in a jointly controlled enterprise, rather than disclosing the basis used to account for any type of joint arrangement.

EFFECTIVE DATE

46 The Exposure Draft noted that the AcSB planned to issue the final standard on joint arrangements 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 these standards would be no earlier than fiscal years beginning on or after January 1, 2016. This date was based on the fact that changes made to the final standards would not be significant and would not require re-exposure or a longer transition period. The timing would be consistent with the AcSB's prior decision to

allow two years between each set of major improvements. This would give private enterprises time to identify the types of joint arrangements they have, and to obtain any of the information that might not be readily available. For example, some enterprises that had previously used either the cost method or the equity method to account for interests in jointly controlled operations or jointly controlled assets now have to account for the individual assets and liabilities. Stakeholders did not raise any concerns on the timing of the effective date. The final standard was issued in September 2014 and is applicable for annual financial statements relating to fiscal years beginning on or after January 1, 2016 with earlier application permitted.

TRANSITION

47 The AcSB recognized that transition to Section 3056 may result in one?time costs to financial statement preparers and users. Some preparers may have to change from proportionate consolidation to the cost or equity method or vice versa. The AcSB concluded that retrospectively restating investments in joint arrangements would not always meet a cost / benefit test. Therefore, in developing the Exposure Draft, the AcSB decided to provide simplified transitional provisions. When transitioning from the proportionate consolidation to the cost or equity method, 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.

48 When transitioning from the cost or equity method to accounting for the investor's interests in the individual assets and obligations of a joint arrangement, the investor may apply full retrospective restatement. Alternatively, 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.

49 One respondent to the Exposure Draft suggested that retrospective application of Section 3056 be required when the information is available. The AcSB discussed this option when creating the transitional provisions but concluded that retrospective application or the use of the special transition provisions should be a free choice. A free choice is consistent with the approach to exceptions to retrospective application in FIRST-TIME ADOPTION, Section 1500. Also, in many cases, the information to do retrospective application may be available, but the amount of effort and cost to use this information may not meet a cost / benefit test. The AcSB approved the transitional provisions substantially as exposed.

CONSEQUENTIAL AMENDMENTS

50 The Exposure Draft included a consequential amendment to Section 1500 to allow an investor that is adopting Part II of the Handbook for the first time to apply the transition provisions from Sections 3051 and 3056. Respondents raised no issues with this amendment.

51 In addition to the consequential amendment to Section 1500, the final standard include amendments to:

(a) ACCOUNTING CHANGES, Section 1506, to exempt the accounting policy choice related to jointly controlled enterprises from meeting the relevance and reliability criteria;

(b) INCOME STATEMENT, Section 1520, to require that income from investments in joint arrangements accounted for using the cost or equity methods be presented separately on the face of the income statement;

(c) BALANCE SHEET, Section 1521, to require that investments in joint arrangements accounted for using the cost or equity methods be presented separately on the balance sheet; and

(d) NON-MONETARY TRANSACTIONS, Section 3831, to refer to guidance in INVESTMENTS, Section 3051, on the accounting for gains or losses from non-monetary transactions.

EXPOSURE FOR COMMENT

52 After resolving the issues arising from the exposure draft process, the AcSB considered, as part of its due process, whether the revisions to the proposals should be exposed for comment. The significant change to the proposals in the Exposure Draft responds to the key concerns that were raised in the comment letters over the complexity of identifying if an interest in a jointly controlled enterprise represents an interest in the net assets or in the individual assets and liabilities. To respond to these concerns, an accounting policy choice was added for jointly controlled enterprises that is similar to the previous requirement in Section 3055. This guidance was added based on the feedback received from stakeholders. Other than these revisions, only minor drafting changes were made. Therefore, the AcSB decided that there was no need for re-exposure. The AcSB agreed on the revisions discussed above.