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Clearly IFRS

Moving ahead in an IFRS world
A practical guide to implementing

IFRS 11 – Joint Arrangements

Contents

Providing you with clarity and perspective

With the IFRS adoption process fairly recently completed, Canadian entities may be surprised by the number of significant new IFRSs that are effective in 2013. The key standards with a mandatory 2013 adoption date are IFRS 10 *Consolidated Financial Statements*; IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of Interests in Other Entities*; IFRS 13 *Fair Value Measurement* and IAS 19 (2011) *Employee Benefits*. This list doesn't include some of the smaller amendments to pre-existing standards such as the consequential amendments to IAS 27 (2011) *Separate Financial Statements* and IAS 28 (2011) *Investments in Associates and Joint Ventures* arising from the issuance of IFRS 10, 11 and 12.

The impact of these new and amended standards may be significant for some entities. Fortunately for Canadian companies, you have your recent IFRS conversion experience to help you tackle these new standards.

A comprehensive listing of new and amended standards and the related effectives dates is available on our IAS Plus website (www.iasplus.com/en/standards/standard3). The same level of information is also available on interpretations (http://www.iasplus.com/en/standards/interpretations/interp1).

About IFRS 11

IFRS 11 is a new standard and supersedes IAS 31 *Interests in Joint Ventures* ("IAS 31") and SIC-13 *Jointly-Controlled Entities – Non-Monetary Contributions by Venturers* ("SIC-13"). The primary goal behind the new standard was to arrive at an accounting treatment which accurately reflects the true nature of the economic interest held by an entity. The existing policy choice under IAS 31 for jointly controlled entities is replaced by a requirement to account for an interest depending on the nature of your rights and obligations under a joint arrangement. Under IFRS 11, the individual assets and liabilities within a jointly controlled vehicle are not recognized in the financial statements of a party with joint control, unless, the rights and obligations for those assets and liabilities do in fact reside with the parties to the arrangement rather than with the vehicle. For those entities previously using proportionate consolidation with joint arrangements that do not use a separate vehicle, the changes (and there are some), will be more limited.

The Deloitte team has assembled this guide to provide you with clarity and practical tips on IFRS 11. We have dedicated a significant part of our guide to the question of classification since this is anticipated to be the aspect of the standard where the most questions from you, our clients, will arise.

I hope that you find this guide helpful and encourage you to reach out to me or one of my colleagues for additional support as needed. Our contact information can be found at the end of this document.

Karen Higgins, FCPA, FCA
National Director of Accounting Services

At a glance

The IASB issued the new standard on Joint Arrangements in May 2011 and it is effective for years commencing January 1, 2013. An entity can elect to early adopt IFRS 11; however, if it does so it must also adopt the new standards on consolidation (IFRS 10) and disclosures (IFRS 12) at the same time as well as the revised standards on separate financial statements (IAS 27 (2011)) and equity method accounting (IAS 28 (2011)).

The principle set out in IFRS 11 is that where a party has the rights to the assets and the obligations for the liabilities of a joint arrangement, then the joint arrangement is considered to be a "joint operation" and those assets and liabilities (or appropriate share thereof) should be recognized by the parties to the joint arrangement. Where the parties to the arrangement have an interest to the net assets, then the arrangement will be classified as a joint venture and subject to equity method accounting under IAS 28 (2011).

It is expected that it will be uncommon for a party to have the rights and the obligations relating to a joint arrangement when a separate vehicle is part of the arrangement. In practice, most vehicles do effectively confer legal separation and this is not typically reversed by the terms of a separate contractual arrangement. While this may be the majority or most typical situation, there will be instances when a joint arrangement is classified as a joint operation. Such instances will arise when the vehicle is designed for the express purpose of servicing a particular need of the joint arrangement parties and essentially fulfills this purpose as opposed to conducting any level of trading of any substance with any third parties. We discuss this further in the "What are 'other facts and circumstances'?" section of this guide.

The practical application of the principles in IFRS 11 to the broad array of joint arrangements that exist in Canada will be challenging at times. In anticipation of these challenges, we have provided a summary of some of the key aspects of the standard in four discrete and concise sections.

Scope and key terms	**An overview of the arrangements that fall within the scope of IFRS 11.**
Classification	**How to determine the appropriate classification of a joint arrangement.**
Transition	**A walkthrough of the transitional provisions that apply when IFRS 11 is adopted.**
Disclosure	**A review of the disclosures (which reside in IFRS 12) related to joint arrangements.**

Our guide concludes with how to "**3 steps to 'GET' on track**" – a tabular summary of the actions we recommend to gather information, evaluate the impact and transition to IFRS 11.

Scope and key terms

While the terms used in IFRS 11 differ from IAS 31, the subject matter of the standard is the same being the accounting requirements for interests subject to joint control. The scope exemption currently in IAS 31 is also incorporated in IFRS 11, albeit in the form of a measurement exemption (see table below).

IFRS 11 requirement	Our comments
• IFRS 11 applies to all entities that are a party to a **joint arrangement.** • There was previously a scope exemption in IAS 31 relating to venture capital organizations and mutual funds and unit trusts [IAS 31.1]. Such entities are not excluded from the scope of IFRS 11 but are eligible for a measurement exemption.	• The scope of the standard is substantively aligned with IAS 31 but is defined with new terms. IAS 31 used the term "joint venture" to capture jointly controlled arrangements. The term joint venture is replaced by the term "joint arrangement". • IAS 28 (2011) now includes a measurement exemption for joint arrangements relating to venture capital organizations, mutual funds and other entities meeting the exemption criteria in IAS 31.1. This measurement exemption should enable most entities previously scoped out of IAS 31 to continue to measure jointly controlled interests at fair value.
• A **joint arrangement** is an arrangement over which two or more parties have joint control. • **Joint control** is defined as the contractually agreed sharing of control and exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.	• As with IAS 31, IFRS 11 addresses those arrangements where two or more entities come together for a specific reason and share control. In the majority of cases, the terms of the arrangement will be set out in the form of a written contract (or equivalent), which indicates the purpose and activity of the joint arrangement and the joint decision making processes. • The new definition of joint control is harmonized with the definition of control in IFRS 10 and guidance in IFRS 10 on what constitutes the relevant activities are also relevant to the IFRS 11 definition of joint control. Therefore, Canadian entities may have to reassess whether or not they have joint control under the revised definitions and guidance in IFRS 10 and 11.

"The new standards will tighten up reporting … and force companies to reveal the substance of joint arrangements"

Sir David Tweedie, 16 June 2011

Classification

Know your rights and your obligations

Under IFRS 11, joint arrangements are required to be classified as either a joint operation or a joint venture. The attributes of each type of joint arrangement are summarized below.

Joint operation

- Each party to the joint operation (or each "joint operator") recognizes its share of the assets, liabilities, revenues and expenses of the joint arrangement.
- The share is determined based on the rights and obligations of each party as set out in the contractual terms.
- The joint operator is required to apply the corresponding IFRS to each financial statement element recognized.

- Includes all joint arrangements which are not structured through a separate vehicle.
- Certain joint arrangements which are structured through a separate vehicle depending on the contractual rights and, if relevant, other facts and circumstances.

Joint venture

- Each party to the joint venture (or each "joint venturer") recognizes an investment.
- The investment is accounted for using the equity method in accordance with IAS 28 (2011).
- The general requirements of IAS 28 (2011) remain essentially unchanged from the existing guidance on equity-method accounting.

- Joint ventures are joint arrangements which are structured through a separate vehicle that confers legal separation between the joint venturer and the assets and liabilities in the vehicle.
- It is anticipated that many arrangements structured through a separate vehicle will be joint ventures.

Under IFRS 11, classification is key as it drives the accounting. The classification is determined by an assessment of the rights and obligations held by an entity in relation to an arrangement and the policy choice under IAS 31 is eliminated. Rather, when an entity has rights to the assets and obligations for the liabilities then these rights and obligations are recognized in accordance with the applicable IFRSs – similar to any other asset or liability. Conversely, when an entity does not have such rights and obligations but has an investment in a vehicle, then this is recognized and accounted for under the equity method of accounting. In Canada, the expected reality is that many (but not all) joint arrangements structured through vehicles will be joint ventures because the substance of the arrangement is such that the separate vehicle (e.g. partnership, corporation, etc.) confers legal protection by its nature. In some cases, the purpose and design of the arrangement may be such that a vehicle has been used explicitly to limit exposure on the parties to the arrangement. Accordingly, the assets and liabilities reside with the vehicle and not the parties to the arrangement.

Comparison to proportionate consolidation

As noted above, the accounting treatment for a joint operation requires the entity – or the joint operator – to recognize its (share of the) assets, liabilities, revenues and expenses related to the joint operation. All of these elements are accounted for in accordance with the applicable IFRSs for the respective element in question. For example, an interest in an item of property, plant or equipment is accounted for under IAS 16 *Property, Plant and Equipment* and revenue arising from the sale of output from the arrangement will be accounted for in accordance with IAS 18 *Revenue*. The basis for conclusions (BC38-BC40) to IFRS 11 provides a comparison of this model to proportionate consolidation under IAS 31. IFRS 11 puts a greater emphasis on the rights and obligations an entity has under the contractual arrangement as opposed to the percentage ownership interest in a joint operation. Under IFRS 11, the percentage recognized is required to be determined pursuant to the entitlement (to the assets) and obligations (for the liabilities established in the contractual terms). In some cases, this may differ from the ownership interest held and may require additional analysis of the appropriate measurement basis for the arrangement.

The unit of account issue: How low (or high) should you go?

In order to determine the appropriate classification of an arrangement, there is a pre-requisite question of what level of granularity (or aggregation) is the appropriate level at which to perform this analysis. IFRS 11 indicates that joint arrangements should be analysed at the level of the activity that the parties have agreed to control jointly. Applying this concept of the "activity" may be simple enough in many instances – for example, when the joint arrangement undertakes a single activity that is carried out fully with a single vehicle. However, in some cases, the determination of the unit of account may be less clear-cut. The standard does not provide a definition of what is considered an activity. In cases where multiple vehicles and/or multiple activities within a single vehicle may be involved, the determination of the appropriate level at which to perform the analysis may be more complex. Given the absence of guidance on this matter, consultation with your professional advisors is recommended.

Joint arrangements not structured through a separate vehicle

For joint arrangements that are not structured through separate vehicles, the standard establishes a clear rule. All such arrangements are classified as joint operations. The IASB considered that there may be instances where a contract reverses the rights (exposures) that arise from holdings of assets (incurrences of liabilities), but they expected those instances to be rare; therefore, the standard does not provide any exception to the requirement for the party to account for the share of the assets and liabilities where a joint arrangement is not structured through a separate vehicle.

Joint arrangements structured through a separate vehicle

As for joint arrangements that are structured through separate vehicles, the standard sets out an assessment that an entity is required to follow in order to classify such arrangements [IFRS 11.B33]. This assessment asks three specific questions which are set out in a specific order and that are targeted at identifying whether the parties have rights to the assets and obligations for the liabilities. A positive answer (indicating that such rights and obligations exist) to any one question will result in joint operation classification and no requirement to continue to the next question in the assessment. A negative answer does not result in a classification conclusion one way or another but requires you to go to the next question in the assessment.

Steps	Yes	No	Considerations
Step one **Form** Does the legal form give the parties rights to the assets and obligations for the liabilities relating to the arrangement?	If yes, the joint arrangement is concluded to be a joint operation.	If no, more information must be obtained through the next assessment question.	The answer to this question will usually – but not always – be "no" as, in Canada, the vast majority of vehicles such as partnerships and corporations will confer legal separation between the parties to the arrangement and the assets and/or liabilities within the vehicle. In some instances the vehicle may have been established specifically in order to protect the parties from excessive liability exposure. In other cases, the fact that separation is present may not have been the primary reason for the use of the vehicle – for example, the use of the structure may be driven by tax motivations. Regardless of the reason, at this stage the focus is on the rights and obligations arising from the legal form. The parties' intentions and objectives relating to the arrangement may, however, be relevant for step three, **other facts and circumstances**.
Step two **Contractual terms** Do the terms of the contractual arrangement specify that the parties have rights to the assets and obligations for the liabilities relating to the arrangement?	If yes, the joint arrangement is concluded to be a joint operation.	If no, more information must be obtained.	In our experience, the answer to this question is often, but not always, "no" based on the nature and format of Canadian joint arrangements. However, there may be some instances when the terms of the contractual arrangement are so specific that they do, in fact, reverse the effect of legal separation that is otherwise conferred by the separate vehicle(s). An application example of this is provided in IFRS 11.B26, Application Example 4.

Steps	Yes	No	Considerations
Step three **Other facts and circumstances** Have the parties designed the arrangement so its activities primarily provide the parties with an output AND so that it depends on the parties on a continuous basis for settling the liabilities of the arrangement?	If yes, the joint arrangement is concluded to be a joint operation.	If no, the joint arrangement is concluded to be a joint venture.	Some arrangements and vehicles are designed and established specifically to provide some form of output to the parties to the arrangement. The primary "customers" are the joint arrangement parties and, in purchasing substantially all of the output, they concurrently provide the cash flows to fund the liabilities. Step three is designed to capture arrangements which have a purpose and design of this nature. At this step of the assessment, consideration of the purpose and design of the arrangement are relevant to the classification and may override a conclusion that would otherwise be reached on the basis of form and contractual terms alone. IFRS 11.B32, Application Example 5, provides an illustration of how step three is to be applied in practice.

What are "other facts and circumstances"?

IFRS 11 doesn't explicitly define "other facts and circumstances" but this step of the assessment is intended to address those situations where, notwithstanding the legal form, the parties to the arrangement do, nonetheless, have rights to the assets and obligations for the liabilities. This is a neutral step in the classification process – not designed to get an arrangement "in" or "out" of a classification but rather designed to provide transparency and to faithfully represent the interest an entity has in an arrangement. The types of arrangements contemplated by this aspect of the guidance would generally be characterized by the following attributes:

- The purpose and design of the arrangement is for the provision of output to the parties to the arrangement;
- Substantially all sales of the arrangement are to the parties (in some cases the arrangement may be prevented from selling to third parties); and
- As a result, the parties to the arrangement are substantially the only source of cash flows funding the arrangement.

In practice, we are likely to see some arrangements in Canada where it may be unclear whether or not they are an arrangement of the type contemplated by the IASB in the development of the guidance on "other facts and circumstances". For example, sales to third parties will, at a certain point, be expected to taint the "substantially all" criterion and the introduction of third party debt will add some tension to the assertion that the parties are substantially the only source of cash flows contributing to the continuity of operations. In such cases, it is necessary to step back and evaluate whether or not the assets and liabilities are effectively those of the party(ies) to the arrangement (thereby requiring recognition) or those of the vehicle. This is another area where consultation with your professional advisors is recommended. Noteworthy also on this point is the explicit requirement in IFRS 12.7(c) to disclose significant judgments made in determining whether or not the arrangement is a joint operation or a joint venture. Whatever the conclusion reached, the thought process involved to get there must be disclosed under this requirement.

Transition

The transitional provisions, located in Appendix C to IFRS 11 and amended in June 2012, are fairly detailed but helpful in providing of some relief on initial application of IFRS 11.

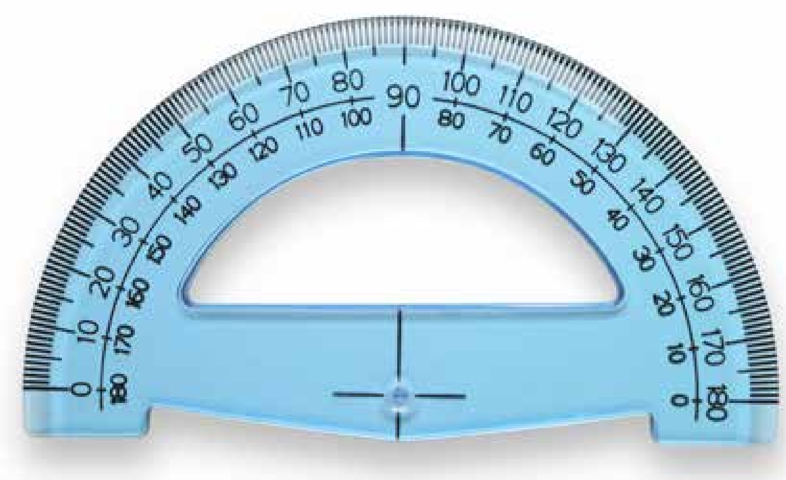
The Standard requires retrospective application, but, limits the requirement to present adjusted comparatives to the annual period immediately preceding the date of initial application of IFRS 11. So, for example, a Canadian entity adopting IFRS 11 on January 1, 2013 would in its first annual financial statements be required to present three statements of financial position (i.e. January 1, 2012, December 31, 2012, December 31, 2013) and two of each of the other statements. In the event that additional comparatives are presented over and above the minimum, an entity has a choice as to whether or not such optional comparative figures are, or are not, adjusted for the application of IFRS 11.

The provisions regarding the transition to equity-method accounting from proportionate consolidation are particularly helpful from a preparer time and effort perspective and enable a "deemed cost" opening balance which uses the aggregation of the pre-existing individual balances as the starting point. A summary of the salient aspects of the transitional provisions is included below.

IFRS 11 – Transition

Transitional issue	Requirement
Transition from proportionate consolidation to the equity method (joint ventures)	• The opening investment balance is required to be determined as at the start of the immediately preceding prior period. A deemed cost balance is established based on the aggregate of the carrying amounts previously proportionately consolidated. • A goodwill allocation to the equity method investment is required where the goodwill previously belonged to a larger cash-generating unit or a group thereof which included the proportionately consolidated investment. An assessment of impairment indicators, and if required, an impairment calculation are required on the deemed cost of the investment (any goodwill included) under IAS 28 (2011) as of the start of the immediately preceding prior period. • A breakdown of the assets and liabilities now included in this single investment balance is required to be disclosed for all periods presented (including the opening balance).

The provisions regarding the transition to equity-method accounting from proportionate consolidation are particularly helpful from a preparer time and effort perspective and enable a "deemed cost" opening balance, which uses the aggregation of the pre-existing individual balances as the starting point.



Transitional issue	Requirement
Transition from equity method to accounting for assets and liabilities	• The opening balances are required to be determined as at the start of the immediately preceding prior period. This determination requires full retrospective application of the standard from the date that joint control was obtained. • In the determination of the opening amounts, the standard requires that the share of the entity's interest in each of the assets and liabilities be determined in accordance with the contractual arrangement. The initial carrying amounts are disaggregated from the carrying amount of the investment and the pre-existing investment is derecognized. • Any difference between the carrying amount of the prior investment and the new amounts determined is required to be adjusted as follows: – Against goodwill where the net carrying amount of the assets and liabilities identified (including any goodwill) is higher than the investment derecognized with any excess recognized in retained earnings. – Against opening retained earnings where the net carrying amount of the assets and liabilities identified (including any goodwill) is lower than the investment derecognized. • A reconciliation between the investment derecognized and the assets and liabilities recognized is required. • The transitional guidance specifically states that the initial recognition exemption in IAS 12 *Income Taxes* does not apply; accordingly, entities will need to consider and recognize the deferred tax consequences of the assets and liabilities recognized on adoption of IFRS 11.
Other transitional issues	• There is no explicit accompanying transition guidance from proportionate consolidation to joint operation accounting in IFRS 11 and so it would be presumed that the standard requirements of retrospective application would apply with any differences on initial adoption being recognized in retained earnings and an explanation of the change provided in the related disclosure note. As described earlier in this guide (refer to section entitled "Comparison to proportionate consolidation"), it is possible that some differences may arise for entities with joint arrangements that fall into this transitional situation.

Disclosures
relating to joint arrangements

IFRS 12 addresses all disclosure requirements in respect of interests in other entities, including those that fall within the scope of IFRS 11. Specifically, it is applicable to an entity that has an interest in any combination of the following: subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The standard is designed to ensure, as far as possible, transparent reporting of the investment interests held by an entity. As such, irrespective of whether an interest is consolidated or, in the case of joint control, the share of the assets and liabilities recognized in the statement of financial position, the nature of the interest, and risks to which the entity is exposed as a result of this interest, are communicated to the financial statement users. For joint ventures previously accounted for under the proportionate consolidation method, any risk of a loss of information is intended to be compensated for by the IFRS 12 disclosure requirements.

The overall stated objective of IFRS 12 is to require an entity to disclose information that enables users of the financials to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. These objectives are satisfied through disclosure requirements which fall into two areas:

- Disclosures relating to the judgments and assumptions made around the interests held in other entities.

- Disclosures providing information about the interests held.

The standard requires additional information be provided where the overall objective set out in the standard is not fully met by the explicit disclosure requirements set out in IFRS 12. The exercise of judgment will be required to determine the extent to which such additional information may be necessary.

Disclosures relating to judgments and assumptions

IFRS 12 explicitly requires that an entity provides qualitative disclosures about the judgments and assumptions made in determining the nature of an interest held by one entity in another entity. These specific disclosure requirements supplement the more general requirements of IAS 1 *Presentation of Financial Statements*, which addresses disclosures around key judgments and assumptions more broadly.

In the context of joint arrangement, IFRS 12 explicitly captures judgments and assumptions related to:

- The determination of whether or not there is joint control over an arrangement.
- The classification of a joint arrangement structured through a separate vehicle as either a joint operation or a joint venture.

This guide includes a reasonable amount of discussion on considerations related to classification and illustrates that the classification decision may not always be clear. The IFRS 12 disclosure requirements are designed to ensure that the user of the financial statements has visibility to management's decision-making process and why a particular classification decision is considered to be appropriate.

Accordingly, entities should be mindful of the requirement to identify and communicate to the financial statement users those arrangements where the conclusion involved a significant degree of judgment and how the ultimate conclusions reached are supported.

Disclosures providing information about interests held in joint arrangements

IFRS 12 deals with information requirements relating to the differing interests that an entity might hold in another entity. In this respect, there is specific guidance relative to the information requirements for interests in joint arrangements and associates. This information is comprised of both qualitative and quantitative information designed to communicate relevant matters pertaining to the interests held which is not otherwise available in the primary financial statements. There is an additional layer of information disclosure requirements for joint ventures designed to convey information that is no longer available to the users following the move away from proportionate consolidation as a policy choice. A summary of the disclosures required is in the table below.

Nature of disclosure	Disclosures for joint operations AND joint ventures	Additional disclosures required for joint ventures only
Nature, extent and financial effects of an entity's interests in joint arrangements	• Name • Nature of relationship with the joint arrangement (e.g. how the activities of the JA relate to those of the reporting entity) • Principal place of business and country of incorporation • Percentage ownership interest (or participating share rights) and percentage of voting rights held	• Measurement basis: equity method or fair value. If equity method, fair value must also be disclosed if a quoted market price exists. • Summarized financial information
Risks associated with an entity's interests in joint ventures	• No additional disclosures for joint operations (since the entity accounts for its share of the assets and liabilities in accordance with the applicable IFRSs, information of this nature will already be addressed).	• Separate disclosure of commitments related to joint ventures. • Separate disclosure of contingent liabilities related to joint ventures.

There is an additional layer of information disclosure requirements for joint ventures designed to convey information that is no longer available to the users following the move away from proportionate consolidation as a policy choice.

The last word

This guide provides you with a general sense of the key changes and how they may impact your entity. The next step is putting these words into actions for your entity, now that you have some idea of the level of impact and attention this amended standard will require.

To better equip you to translate words into actions we have included an implementation checklist in this guide on the adjacent page. This checklist provides a series of logical steps designed to guide you through your IFRS 11 implementation.

This guide has been written in a deliberately condensed way – it is not a substitute for the standard and nor is it intended to address specific complexities you encounter. However, it should enable you to determine if you do need additional support and for that we are on hand to assist you as needed.

Remember that on adoption of a new or amended standard, the requirements are applicable from the first interim period that falls within the annual period in which a standard becomes effective – so March 31, 2013 for calendar-year ends. Canadian reporting issuers will also need, in most instances, to present a third statement of financial position as at the start of the earliest comparative period presented under NI 51-102 *Continuous Disclosure Obligations* which requires the inclusion of such a statement upon the retrospective application of a new accounting policy. This third statement of financial position (i.e. as at January 1, 2012 for calendar year-end companies adopting IFRS 11 in 2013) is also an annual financial statement requirement under IAS 1 *Presentation of Financial Statements*. Materiality considerations may, in some instances, allow for the exclusion of the third statement of financial position – for example, in a case where the standard has no impact on an entity for all periods presented.

Implementation
3 steps to 'GET' on track with IFRS 11

Implementation requires a move away from just words and into actions - **G**ather information, **E**valuate the impact and **T**ransition.
A summary of how to **"GET"** ready for IFRS 11 is in the table.
The new accounting requirements for joint arrangements may take some time to digest and apply but we hope this guide has given you a better understanding of the requirements of IFRS 11 and the impact on your entity.

Step 1 Gather information	Step 2 Evaluate the impact	Step 3 Transition to IFRS 11
Pulling together all of the different data points you need to implement IFRS 11 – everything from the standard itself to facts related to your entity to preliminary resource identification.	Getting into the nuts and bolts of what IFRS 11 means and identifying the pressure points for your entity. This will entail a review of your old policy and consideration of policy changes to be made.	Combining information obtained and decisions made in the first two stages in order to implement the new standard.

Detailed consideration points

Step 1

- Accumulate all contractual agreements relating to joint arrangements (including any subsequent amendments).
- Locate any previous position papers performed on contractual arrangements under IAS 31 (or under Canadian GAAP prior to IFRS adoption).
- Inventory joint arrangements by type. For example:
  - Arrangements structured through a separate vehicle.
  - Arrangements not structured through a separate vehicle.
- Consider whether further segregation will be helpful to complete evaluation. For example:
  - Common legal structures set up with symmetrical contractual terms.
  - Arrangements set up where all/most of the output is taken by the parties to the arrangement.
  - Complex structures which involved a more extensive evaluation under IAS 31 and Canadian GAAP.

Step 2

- Review contracts by "type" as determined in Step 1.
- For arrangements structured through a separate vehicle assess and document assessment going through the classification approach required by IFRS 11.B15:
  - Assess Legal Form;
  - Assess Contractual terms;
  - Assess other facts and circumstances when relevant.
- If the final step (facts and circumstances) is required, determine whether outside guidance should be sought.
- Highlight significant judgments made in classification process subject to IFRS 12 disclosure requirements.
- Work through accounting requirements driven by classification analysis:
  - Proportionate consolidation to equity-method;
  - Proportionate consolidation to accounting for interests in assets and liabilities;
  - Equity-method (before and after);
  - Equity method to accounting for interests in assets and liabilities.
- Evaluate consequential impacts of any change in accounting under IFRS 11. For example requirements of other standards (e.g. IAS 23, IAS 36, IAS 28, etc.).
- Calculate transitional entry required and consider the impact on the prior (comparative) period.
- Establish process to comply with IFRS 12 disclosure requirements.

Step 3

- Determine when you are going to implement (Jan 1, 2013 or earlier for calendar year-ends)[1].
- Remember that adoption is as of the beginning of the immediately preceding comparative period, and as such, reporting (including comparative data) starts in the first quarter of 2013.
- Don't forget to consider the requirement for a third (opening) statement of financial position.
- For any non-calendar year end entities that plan to early adopt IFRS 11, remember that this is a package deal: early adoption of four additional standards will also be required.
- Disclose preliminary impact in pre-implementation financials (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).
- Communicate major changes as required to other stakeholders.

Resources

- Internal: Legal, Tax
- External: Auditors
- Q3 2012: IFRS quarterly technical update – Moving ahead in an IFRS world
- IFRS in Focus: IASB issues amendments to IFRS 10, IFRS 11 and IFRS 12 transition guidance; and IASB issues new standard on joint arrangements (May 2011)

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Endnotes

1 Those entities who have a relationship with one or more entities in the European Union (EU) may wish to note that IFRSs for entities subject to EU legislation may not be adopted until the EU has endorsed each IFRS. IFRS 11 has not been endorsed by the EU at the time of writing and is not expected to be effective in the EU until 2014. Accordingly, it will be important to ensure appropriate procedures are in place to ensure an appropriate mechanism is in place to ensure the appropriate adoption timeframe of IFRS 11 for inclusion in any Canadian financial statements.

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