

IFRS 11: Classification of Limited Partnerships Subject to Joint Control

Excerpt, IFRS Discussion Group Report on Meeting, January 12, 2012

IFRS 11 *Joint Arrangements* requires an entity to classify a joint arrangement as a “joint operation” or a “joint venture”. This classification is important because the accounting treatment depends on the type of joint arrangement. Paragraphs B14-B33 of IFRS 11 provide application guidance on classifying a joint arrangement.

Limited partnerships are widely used as an ownership structure for joint arrangements in Canada and other parts of the world because of certain tax advantages. Under some legal frameworks, a partnership is not a separate entity at law and, accordingly, partners generally would have direct pro rata interests in partnership assets and liabilities. Limited partnership provisions modify this basic legal framework to create a separation for limited partners.

Some partnership acts in Canada have terms such as:

Partners bound by acts on behalf of firm

8(1) An act or instrument relating to the business of the firm and done or executed in the firm name, or in another manner showing an intention to bind the firm, by a person authorized in that behalf, whether a partner or not, **binds the firm and the partners**.

(2) Subsection (1) does not affect any general rule of law relating to the execution of deeds, instruments or documents affecting land.

Liability of limited partner

57 Subject to this Part, **a limited partner is not liable for the obligations of the limited partnership** except in respect of the amount of property the limited partner contributes or agrees to contribute to the capital of the limited partnership.

(The Partnership Act of Alberta, emphasis added)

Often the parties having joint control over a limited partnership own a pro rata portion of limited partnership and general partnership interests. Exposure to loss on limited partnership investments is limited to the capital invested. However, legally, exposure to loss in excess of invested capital for the general partnership interest is unlimited.

The issue considered by the Group was whether a joint arrangement that is structured as a limited partnership should be classified as a joint operation under IFRS 11 by virtue of its legal form.

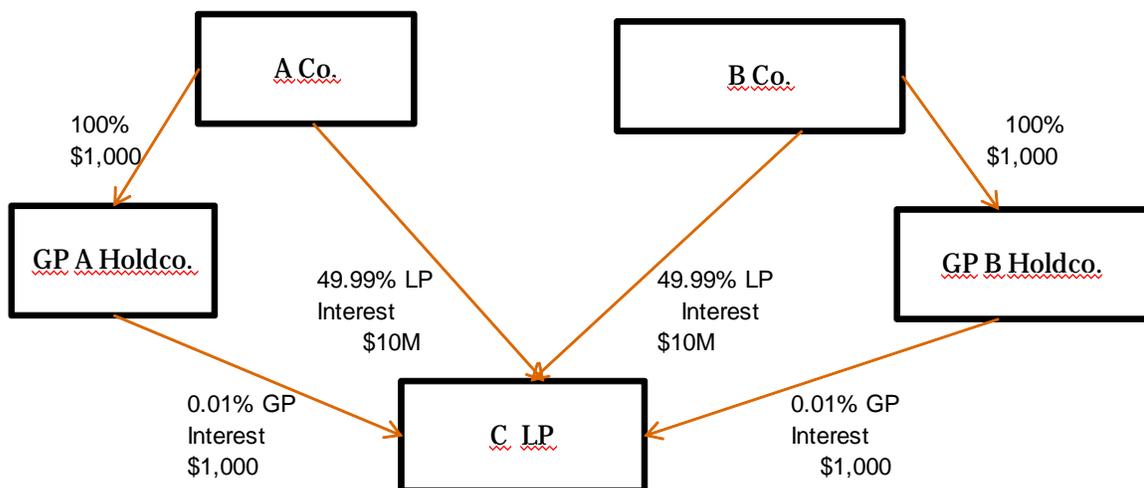
Fact Pattern:

- A Co. and B Co.:
 - form a limited partnership, C LP;

Source: www.frascanada.ca/ifrs-discussion-group

- invest \$10 million each in 49.99% in a limited partnership interest in C LP, which are entitled to 99.98% of distributions and 99.98% of net assets on liquidation; and
- invest a nominal amount (say \$1,000) each to establish holding corporations GP A Holdco and GP B Holdco, in which each owns 100% of the shares and has control.

- Each of the GP Holdcos invests the \$1,000 in a general partnership interest in C LP for an interest of 0.01%.



Should a limited partnership structure, such as the one described above, always be classified as a joint operation under IFRS 11 by virtue of its legal form (*View A*) or does the arrangement confer separation and qualify as a joint venture under IFRS 11 unless other fact and circumstances indicate otherwise (*View B*)?

The Group's Discussion

Group members expressed support for View B because, in this fact pattern, A Co. and B Co. do not have direct rights to the assets of C LP. As a result, Group members noted that the arrangement does confer separation between the assets of the joint arrangement and A Co. and B Co.. Paragraph B24 of IFRS 11 states:

“The assessment of the rights and obligations conferred upon the parties by the legal form of the separate vehicle is sufficient to conclude that the arrangement is a joint operation only if the parties conduct the joint arrangement in a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (ie the assets and liabilities held in the separate vehicle are the parties' assets and liabilities).”

Also, Group members observed that the arrangement should be considered in the context of paragraph B14 of IFRS 11, which states, in part, that the classification “depends upon the parties' rights and obligations arising from the arrangement in the normal course of business.” The general or limited partner would not have access to the assets of the limited partnership or the obligation for the liabilities of the limited partnership in the normal course of business.

As a result, Group members noted that the legal form in this fact pattern is not sufficient to conclude that the joint arrangement is a joint operation and A Co. and B Co. need to consider all factors in determining the classification of the joint arrangement. Group members concluded that this issue should not be brought to the attention of the IFRS Interpretations Committee because diversity should not emerge in practice given the application guidance in IFRS 11.