

IFRS 11: Guarantees of Debt of a Joint Arrangement

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

As noted above, 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.

At inception, a joint arrangement will generally have little credit and few assets to support purchases. In order to commence operations, parties in a joint arrangement commonly provide guarantees to third parties for the obligations of the joint arrangement. The issue considered by the Group was whether an arrangement should always be classified as a joint operation under IFRS 11 when the liabilities of the joint arrangement are guaranteed by the parties to the arrangement (View A) or whether the guarantee is only one factor to consider in assessing the classification of the arrangement (View B).

The Group’s Discussion

Group members observed that IFRS 11 is clear that a guarantee is only one factor to consider in assessing the classification of the arrangement. Group members noted that paragraph B27 of IFRS 11 explicitly states that the provision of guarantees is not sufficient to conclude that the joint arrangement is a joint operation:

“The parties to joint arrangements are often required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation. The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).”

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 that the issue is specifically addressed in the application guidance in paragraph B27 of IFRS 11.