This accounting policy paper is based on IPSAS 37 Joint Arrangements, as adopted by the Treasury of the Republic of Cyprus.

Joint Arrangements

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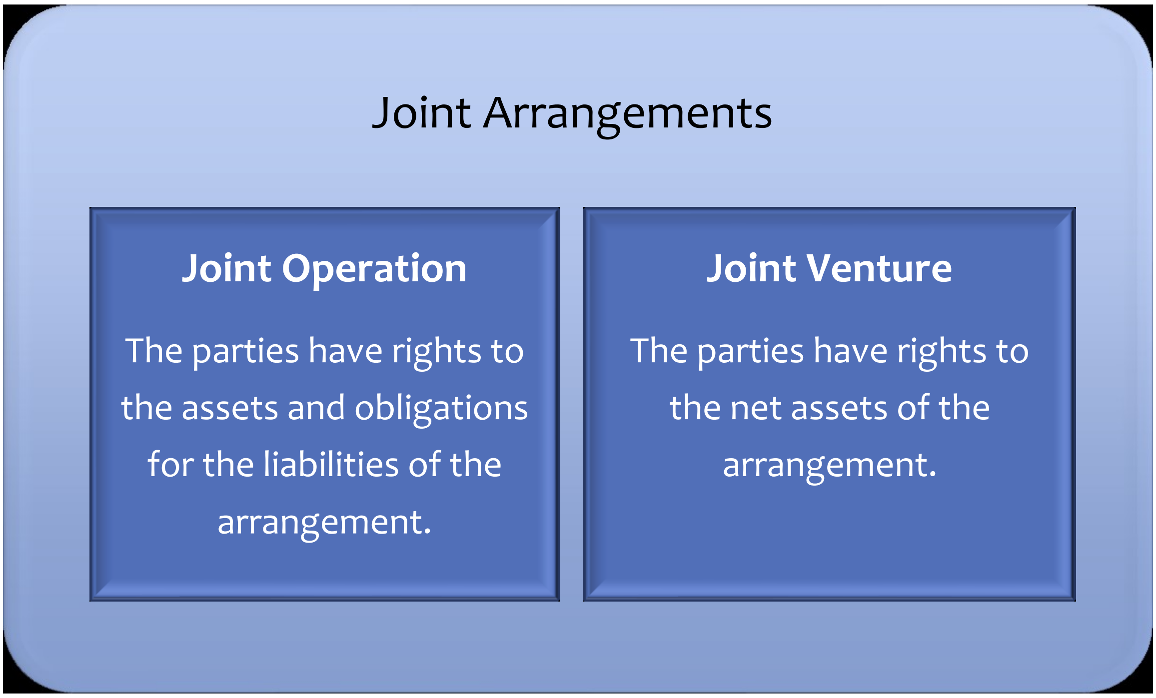
1. INTRODUCTION

1.1 OVERVIEW



1.2 OBJECTIVES

The objective of this accounting policy is to establish the principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this policy in determining the type of joint arrangement in which it is involved and in accounting for the rights and obligations of the joint arrangement.

This policy shall be applied by all entities that are a party to a joint arrangement.

1.4 DEFINITIONS

Benefits are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.

Binding arrangement – for the purposes of this policy, a binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets/ equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are prepared as those of a single economic entity.

Control – An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognised in the investee's surplus or deficit.

Joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint operator is a party to a joint operation that has joint control of that joint operation.

Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint venturer is a party to a joint venture that has joint control of that joint venture.

Party to a joint arrangement is an entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.

Power consists of existing rights that give the current ability to direct the relevant activities of another entity.

Protective rights are rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.

Relevant activities are activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements of this accounting policy, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the Accounting Policy for Financial Instruments, or using the equity method as described in the Accounting Policy for Investments in Associates and Joint Ventures.

Separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control.
A joint arrangement is either a joint operation or a joint venture.

A joint arrangement has the following characteristics:

a) The parties are bound by a **binding arrangement**.
b) The binding arrangement gives two or more of those parties **joint control** of the arrangement.

2.1 BINDING ARRANGEMENT

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties. Statutory mechanisms such as legislative or executive authority can also create enforceable arrangements, similar to contractual arrangements.

The binding arrangement sets out the terms upon which the parties participate in the activity that is the subject of the arrangement. The binding arrangement generally deals with such matters as:

a) The purpose, activity and duration of the joint arrangement.
b) How the members of the board of directors, or equivalent governing body, of the joint arrangement are appointed.
c) The decision-making process: the matters requiring decisions from the parties, the voting rights of the parties and the required level of support for those matters.
d) The capital or other contributions required of the parties.
e) How the parties share assets, liabilities, revenues, expenses or surplus or deficit relating to the joint arrangement.

2.2 JOINT CONTROL

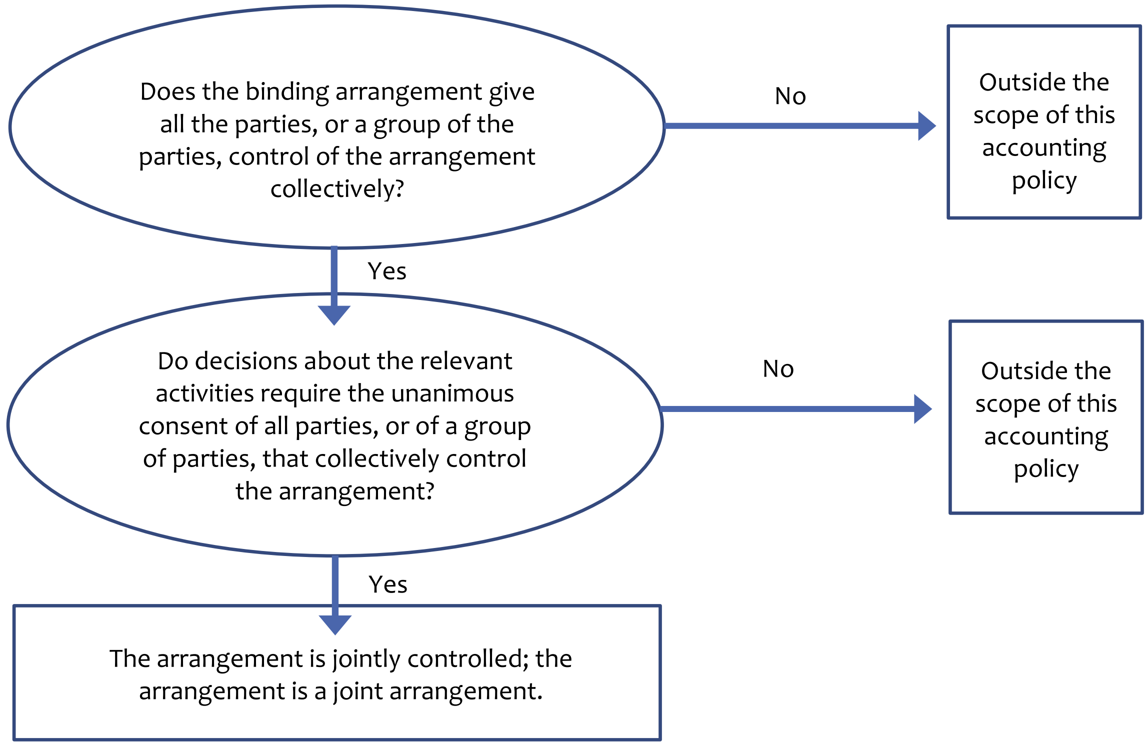
Joint control is the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The sharing of control may have been agreed by way of a binding arrangement.

An entity that is a party to an arrangement shall assess whether the binding arrangement gives all the parties, or a group of the parties, control of the arrangement collectively. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the benefits from the arrangement (i.e. the relevant activities).

An entity will need to apply judgement when assessing whether all the parties, or a group of the parties, have joint control of an arrangement. An entity shall make this assessment by considering all facts and circumstances.

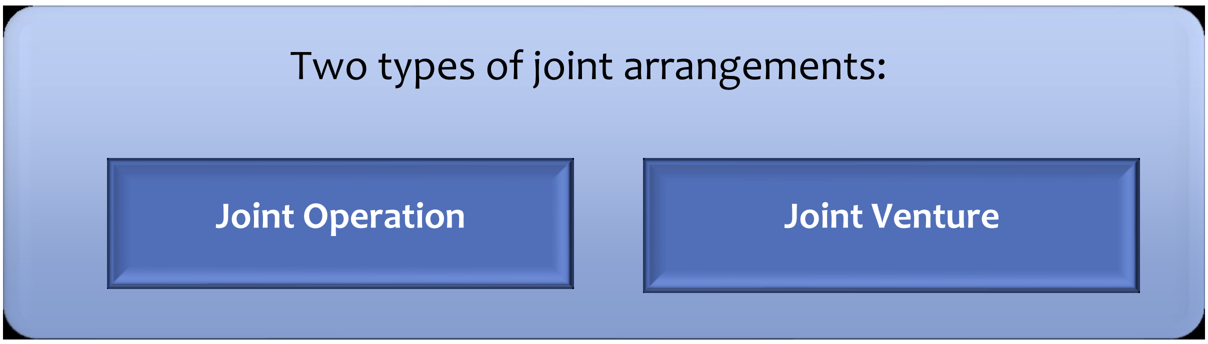
If facts and circumstances change, an entity shall reassess whether it still has joint control of the arrangement.

Assessing Joint Control



(IPSAS 37: Joint Arrangements)

2.3 TYPES OF JOINT ARRANGEMENT



An entity shall determine the type of the joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement. An entity assesses its rights and obligations by considering:

a) The structure of the joint arrangement (i.e. whether or not the joint arrangement is structured through a separate vehicle).
b) When the joint arrangement is structured through a separate vehicle:
   i. the legal form of the separate vehicle,
   ii. the terms agreed by the parties or established by legislative or executive authority, and
   iii. other relevant facts and circumstances.

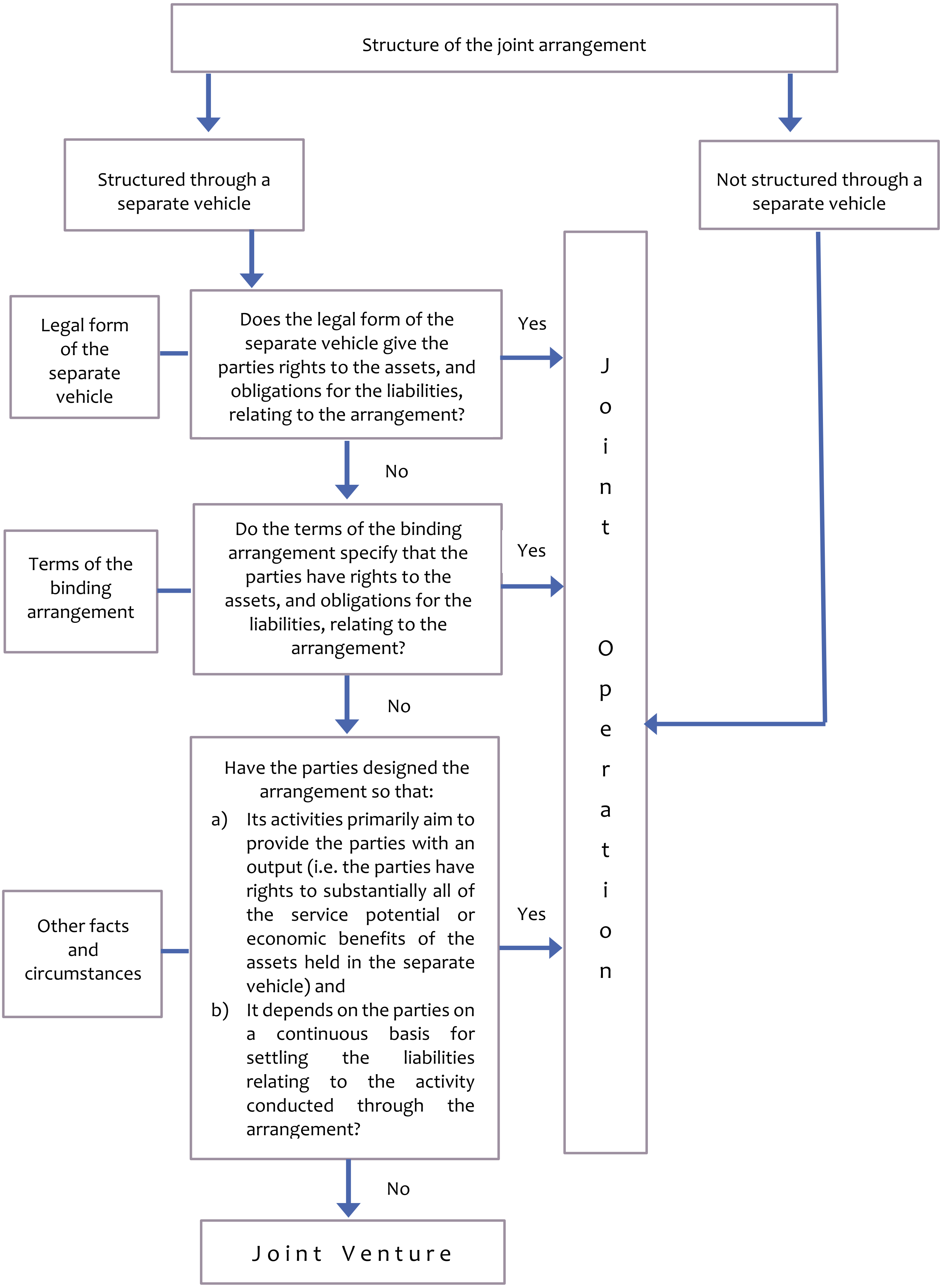
2.3.1 Structure of the Joint Arrangement

A joint arrangement that is ***not structured through a separate vehicle*** is a joint operation. In such cases, the binding arrangement establishes the parties' rights to the assets, and obligations for the liabilities, relating to the arrangement, and the parties' rights to the corresponding revenues and obligations for the corresponding expenses.

A joint arrangement that is ***structured through a separate vehicle*** can be either a joint venture or a joint operation. In such cases, the assets and liabilities relating to the arrangement are held in a separate vehicle. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets, and obligations for the liabilities, relating to the arrangement, that are held in the separate vehicle.

Examples of the application of joint arrangement assessments are set out in ***Appendix 1***.

2.3.2 Classification of a Joint Arrangement



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3. FINANCIAL STATEMENTS OF THE PARTIES TO A JOINT ARRANGEMENT

3.1 JOINT OPERATIONS

3.1.1 GENERAL

A joint operator shall recognise in relation to its interest in a joint operation:

a) Its assets, including its share of any assets held jointly;
b) Its liabilities, including its share of any liabilities incurred jointly;
c) Its revenue from the sale of its share of the output arising from the joint operation;
d) Its share of the revenue from the sale of the output by the joint operation; and
e) Its expenses, including its share of any expenses incurred jointly.

A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

3.1.2 ACCOUNTING FOR SALES OR CONTRIBUTIONS OF ASSETS TO A JOINT OPERATION

When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

When such transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed to the joint operation, or of an impairment loss of those assets, those losses shall be recognised fully by the joint operator.

3.1.3 ACCOUNTING FOR PURCHASES OF ASSETS FROM A JOINT OPERATION

When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a purchase of assets, it shall not recognise its share of the gains and losses until it resells those assets to a third party.

When such transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, a joint operator shall recognise it share of those losses.

3.1.4 APPLICABILITY

A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in the arrangement in accordance with the provisions set out in paragraph 3.1 of this accounting policy, if that party has rights to the assets, and obligations for the liabilities, relating to the joint operation. If a party participates in, but does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it shall account for its interest in the joint operation in accordance with the accounting policies applicable to that interest (Accounting Policy for Investments in Associates and Joint Ventures, Accounting Policy for Public Sector Combinations).

3.2 JOINT VENTURES

A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with the Accounting Policy for Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that accounting policy.

A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with the Accounting Policy for Financial Instruments, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with the Accounting Policy for Investments in Associates and Joint Ventures.

3.3 SEPARATE FINANCIAL STATEMENTS

1. In its separate financial statements, a joint operator or joint venture shall:

   a) account for its interest in a joint operation in accordance with paragraphs 3.1.1 – 3.1.3 of this accounting policy;
   b) account for its interest in a joint venture in accordance with paragraph 2.2 of the Accounting Policy for Separate Financial Statements.

2. In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall:

   a) account for its interest in a joint operation in accordance with paragraph 3.1.4 of this accounting policy;
   b) account for its interest in a joint venture in accordance with the Accounting Policy for Financial Instruments, unless it has significant influence over the joint venture, in which case it shall apply paragraph 2.2 of the Accounting Policy for Separate Financial Statements.

4. DISCLOSURE

The disclosure requirements are included in section 3 of this accounting policy.

5. TRANSITIONAL PROVISIONS

5.1 PRESENTATION OF INFORMATION

On the initial application of this accounting policy, the entity shall only present the quantitative information required by paragraph 5.1.1(f) of the Accounting Policy for Accounting Policies, Changes in Accounting Estimates and Errors, for the annual period immediately preceding the first annual period for which this accounting policy is applied.

5.2 JOINT VENTURES

When changing **from proportionate consolidation to the equity method**, an entity shall recognise its investment in the joint venture as at the beginning of the immediately preceding period. The initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.

The opening balance of the investment determined in accordance with the previous paragraph is regarded as the deemed cost of the investment at initial recognition. An entity shall apply paragraph 3.2.4 (Impairment Losses) of the Accounting Policy for Investments in Associates and Joint Ventures to the opening balance of the investment to assess whether the investment is impaired and shall recognise any impairment loss as an adjustment to accumulated surplus or deficit at the beginning of the immediately preceding period.

If aggregating all previously proportionately consolidated assets and liabilities results in negative net assets, the entity shall assess whether it has legal or constructive obligations in relation to the negative net assets and, if so, the entity shall recognise the corresponding liability. If the entity concludes that it does not have legal or constructive obligations in relation to the negative net assets, it shall not recognise the corresponding liability but it shall adjust accumulated surplus or deficit at the beginning of the immediately preceding period. The entity shall disclose that fact, along with its cumulative unrecognised share of losses of its joint ventures as at the beginning of the immediately preceding period and at the date at which this accounting policy is first applied.

The entity shall disclose a breakdown of the assets and liabilities that have been aggregated into the single line investment balance as at the beginning of the immediately preceding period.

After initial recognition, the entity shall account for its investment in the joint venture using the equity method in accordance with the Accounting Policy for Investments in Associates and Joint Ventures.

5.3 JOINT OPERATIONS

When changing **from the equity method to accounting for assets and liabilities** in respect of its interest in a joint operation, an entity shall, at the beginning of the immediately preceding period, derecognise the investment that was previously accounted for using the equity method and any other items that formed part of the entity's net investment in the arrangement and recognise its share of each of the assets and the liabilities in respect of its interest in the joint operation, including any goodwill that might have formed part of the carrying amount of the investment.

An entity shall determine its interest in the assets and liabilities relating to the joint operation on the basis of its rights and obligations in a specified proportion in accordance with the binding agreement. An entity measures the initial carrying amounts of the assets and liabilities by disaggregating them from the carrying amount of the investment at the beginning of the immediately preceding period on the basis of the information used by the entity in applying the equity method.

Any difference arising from the investment previously accounted for using the equity method together with any items that formed part of the entity's net investment in the arrangement and the net amount of the assets and liabilities, including any goodwill, recognised shall be:

a) Offset against any goodwill relating to the investment with any remaining difference adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognised is higher than the investment (and other items that formed part of the entity's net investment) derecognised.
b) Adjusted against accumulated surplus or deficit at the beginning of the immediately preceding period, if the net amount of the assets and liabilities, including any goodwill, recognised is lower than the investment (and other items that formed part of the entity's net investment) derecognised.

An entity changing from the equity method to accounting for assets and liabilities shall provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted against accumulated surplus or deficit, at the beginning of the immediately preceding period.

5.4 Entity's Separate Financial Statements

An entity that was previously accounting in its separate financial statements for its interest in a joint operation as an investment using the equity method, at cost or in accordance with the Accounting Policy for Financial Instruments, shall:

a) Derecognise the investment and recognise the assets and the liabilities in respect of its interest in the joint operation at the amounts determined in accordance with paragraph 5.3 of this accounting policy.
b) Provide a reconciliation between the investment derecognised, and the assets and liabilities recognised, together with any remaining difference adjusted in accumulated surplus or deficit, at the beginning of the immediately preceding period.

6. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2021.

7. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

IPSAS 37 Joint Arrangements

8. APPENDICES

APPENDIX 1: EXAMPLES

1. Construction Services

A and B (the parties) are two entities whose activities include the provision of many types of public and private construction services. Entity A is a private sector entity. Entity B is government owned. They set up a binding arrangement to work together for the purpose of fulfilling a contract with a government for the design and construction of a road between two cities. The binding arrangement determines the participation shares of A and B and establishes joint control of the arrangement, the subject matter of which is the delivery of the road. The joint arrangement will have no further involvement once the road has been completed. The road will be transferred to the government at that point.

The parties set up a separate vehicle (entity Z) through which to conduct the arrangement. Entity Z, on behalf of A and B, enters into the contract with the government. In addition, the assets and liabilities relating to the arrangement are held in entity Z. The main feature of entity Z's legal form is that the parties, not entity Z, have rights to the assets, and obligations for the liabilities, of the entity.

A binding arrangement between A and B additionally establishes that:

a) The rights to all the assets needed to undertake the activities of the arrangement are shared by the parties on the basis of their participation shares in the agreement;
b) The parties have several and joint responsibility for all operating and financial obligations relating to the activities of the arrangement on the basis of their participation shares in the arrangement; and
c) The surplus or deficit resulting from the activities of the arrangement is shared by A and B on the basis of their participation shares in the arrangement.

For the purposes of co-ordinating and overseeing the activities, A and B appoint a project manager, who will be an employee of one of the parties. After a specified time, the role of the project manager will rotate to an employee of the other party. A and B agree that the activities will be executed by the employees on a "no gain no loss" basis.

In accordance with the terms specified in the contract with the government, entity Z invoices the construction services to the government on behalf of the parties.

Analysis

The joint arrangement is carried out through a separate vehicle whose legal form does not confer separation between the parties and the separate vehicle (i.e. the assets and liabilities held in entity Z are the parties' assets and liabilities). This is reinforced by the terms agreed by the parties in their binding agreement, which state that A and B have rights to the assets, and obligations for the liabilities, relating to the arrangement that is conducted through entity Z. The joint arrangement is a joint operation. It is not a service concession arrangement.

A and B recognise in their financial statements their share of the assets (e.g. property, plant and equipment, accounts receivable) and their share of liabilities resulting from the arrangement (e.g. accounts payable to third parties) on the basis of their agreed participation share. Each also recognises its share of the revenue and expenses resulting from the construction services provided to the government through entity Z.

2. Service Centre Operated Jointly

Two entities (the parties) set up a separate vehicle (entity X) for the purpose of establishing and operating a joint service centre. The binding arrangement between the parties establishes joint control of the activities that are conducted in entity X. The main feature of entity X's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the allocation of office space to services, managing the car park, maintaining the centre and its equipment, such as lifts, building the reputation of the centre and managing the client base for the centre.

The terms of the binding agreement are such that:

a) Entity X owns the service centre. The binding arrangement does not specify that the parties have rights to the service centre.
b) The parties are not liable in respect of the debts, liabilities or obligations of entity X. If entity X is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party shall be limited to the unpaid amount of that party's capital contribution.
c) The parties have the right to sell or pledge their interests in entity X.
d) Each party pays for its share of expenses for operating the service in accordance with its interest in entity X.

Analysis

The joint arrangement is carried out through a separate vehicle whose legal form causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties). In addition, the terms of the binding arrangement do not specify that the parties have rights to the assets, or obligations for the liabilities, relating to the arrangement. Instead, the terms of the binding arrangement establish that the parties have rights to the net assets of entity X.

On the basis of the description above, there are no other facts and circumstances that indicate that the parties have rights to substantially all the service potential or economic benefits of the assets relating to the arrangement, and that the parties have an obligation for the liabilities relating to the arrangement. The joint arrangement is a joint venture.

The parties recognise their rights to the net assets of entity X as investments and account for them using the equity method.

3. Oil and Gas Exploration, Development and Production Activities

Entities A and B (the parties) set up a separate vehicle (entity H) and a Joint Operating Agreement (JOA) to undertake oil and gas exploration, development and production activities in country O. The main feature of entity H's legal form is that it causes the separate vehicle to be considered in its own right (i.e. the assets and liabilities held in the separate vehicle are the assets and liabilities of the separate vehicle and not the assets and liabilities of the parties).

Country O has granted entity H permits for the oil and gas exploration, development and production activities to be undertaken in a specific assigned block of land (fields).

The agreement and JOA agreed by the parties establish their rights and obligations relating to those activities. The main terms of those agreements are summarised below.

Agreement

The board of entity H consists of a director from each party. Each party has a 50% holding in entity H. The unanimous consent of the directors is required for any resolution to be passed.

Joint Operating Agreement (JOA)

The JOA establishes an Operating Committee. This Committee consists of one representative from each party. Each party has a 50% participating interest in the Operating Committee.

The Operating Committee approves the budgets and work programs relating to the activities, which also require the unanimous consent of the representatives of each party. One of the parties is appointed as operator and is responsible for managing and conducting the approved work programs.

The JOA specifies that the rights and obligations arising from the exploration, development and production activities shall be shared among the parties in proportion to each party's holding in entity H. In particular, the JOA establishes that the parties share:

a) The rights and obligations arising from the exploration and development permits granted to entity H (e.g. the permits, rehabilitation liabilities, any royalties and taxes payable);
b) The production obtained; and
c) All costs associated with all work programs.

The costs incurred in relation to all the work programs are covered by cash calls on the parties. If either party fails to satisfy its monetary obligations, the other is required to contribute to entity H the amount in default. The amount in default is regarded as a debt owed by the defaulting party to the other party.

Analysis

The parties carry out the joint arrangement through a separate vehicle whose legal form confers separation between the parties and the separate vehicle. The parties have been able to reverse the initial assessment of their rights and obligations arising from the legal form of the separate vehicle in which the arrangement is conducted. They have done this by agreeing terms in the JOA that entitle them to rights to the assets (e.g. exploration and development permits, production, and any other assets arising from the activities) and obligations for the liabilities (e.g. all costs and obligations arising from the work programs) that are held in entity H. The joint arrangement is a joint operation.

Both entity A and entity B recognise in their financial statements their own share of the assets and of any liabilities resulting from the arrangement on the basis of their agreed participating interest. On that basis, each party also recognises its share of the revenue (from the sale of their share of the production) and its share of expenses.