30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **17 April 2008, London**

Project: **Joint Arrangements**

Subject: **Staff analysis of comment letters (Agenda paper 10B)**

INTRODUCTION

1. The purpose of this agenda paper is to support Agenda Paper 10A 'Summarised Overview' by providing a more detailed analysis of the comments received.

2. The paper is structured to reflect the main comments received from respondents by mirroring the internal structure of the Exposure Draft ED 9 *Joint Arrangements*. This paper is for information purposes only and does not aim to reach any conclusions on the issues raised by respondents.

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3. The paper is divided into the following sections:

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II. Comments relating to the Core Principle (Ref ED 9: IN4, Paragraph 1 & Invitation to comment – Question 2)

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III.I. Comments relating to the descriptions of joint arrangements provided in the proposals

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I. <u>Comments relating to the Objectives of the Project (Ref ED 9: IN1 & IN2)</u>

I.I. Enhancement of financial information might not be achieved (Ref ED 9: IN1)

4. Many respondents expressed reservations on whether the proposals fulfil this objective. Most of the respondents expressing this concern were preparers or representative bodies

of preparers, geographically based in Europe and encompassing a wide range of industries.

5. The main comments supporting this concern are as follows:

   a. Some respondents did not believe the proposals will adequately reflect the substance and economic reality of the entities' financial position and performance. For some of these respondents, groups for which joint ventures represent a major part of their activity or strategic means of development were believed to be mostly affected.

   b. Many respondents stated that the elimination of proportionate consolidation for joint ventures will have a negative effect on the quality, usefulness and relevance of the financial information. For these respondents, the proposals do not demonstrate that the replacement of proportionate consolidation by the equity method will enhance the quality of financial information necessary for users to make decisions.

   c. Several respondents stated that the proposals will lead to two disconnected sets of consolidated statements, one internal based on proportionate consolidation and a second one GAAP compliant. For some of these respondents, the proposals will result in a more frequent use of non GAAP measures by public companies to explain their results to investors. This is considered to be a sign that the financial information will not be enhanced by the proposals.

   d. Many respondents stated that the proposals imply that joint control and significant influence will have the same accounting treatment. For several of these respondents, quality of the financial information will not be enhanced by applying the same accounting treatment to what they considered to be very different situations.

I.I.I. Form of the arrangement is still a significant factor in determining the accounting (Ref ED 9: IN1 (a))

6. Many respondents believed that the proposals are not successful in moving away from the legal form of the arrangement when determining the accounting treatment.

7. Most of the respondents expressing this concern were preparers, representative bodies of preparers, standard setters and professional bodies. Most of these respondents are based in Europe, representing mostly the energy, banking and accounting industries.

8. The main comments supporting this argument are as follows:

   a. Some respondents perceived the focus on ‘contractual rights and obligations’ in the core principle as an indicator of adherence to legal form rather than giving relevance to underlying economic substance. These respondents raised concerns on whether the core principle, as drafted, may restrict the recognition of rights and obligations to only those that arise from contracts.

   b. Several respondents stated that the current IAS 31 *Interests in Joint Ventures,* also requires an entity to evaluate the substance of the arrangement (IAS 31.32). Some of these respondents commented that it was difficult to see how the draft standard represents a change from current IAS 31 in respect of jointly controlled entities or why the proposed change (ie, accounting of the contractual rights and obligations of the arrangement) is needed.

   c. Some respondents stated that the legal form of the arrangements determines the proposed accounting treatment due to the fact that arrangements of similar economic substance may receive a different accounting treatment. These respondents used different arguments to support this view:

      i. Some respondents stated that the draft standard places more relevance on the classification of a specific type of joint arrangement based on its contractual terms and legal ownership rather than on its substance. As a result of the proposals, these respondents believed that appropriate classification of joint arrangements will be a matter of interpretation of contractual arrangements. Based on this understanding, these respondents' view was that the proposals should offer more guidance on this subject.

ii. Some respondents believed that the proposals led to the conclusion that when a joint arrangement takes the form of an entity, the equity method applies. Some of these respondents stated that an incorporated entity is often used as a consequence of legal, regulatory, or taxation considerations, therefore, if the substance of the arrangement is fundamentally the same, the existence of an entity should not cause the accounting treatment to be different.

    One of these respondents pointed out that the proposals' focus on the legal form and that this could cause entities to reconsider the legal structure of existing and future joint ventures in order to justify or not direct rights and obligations in order to achieve a specific accounting treatment. This was perceived as creating a risk of accounting arbitrage.

iii. Some respondents used Illustrative Examples 2 and 4 of the proposals to support the argument that differences between joint assets and joint ventures often resides only in how the deal is structured.

    In the variation of Illustrative Example 2, legal ownership of the aircraft by a jointly controlled company leads to a right to a residual asset which has to be accounted for as part of the joint venture rather than as a joint asset. In Illustrative Example 4 the accounting for the arrangement is determined by the fact than an entity has been set up to own and operate the shopping centre. These respondents believed that the accounting would be different if each venturer continued to own 50% of the shopping centre and had set up a jointly controlled operating entity, and different again if the centre was operated by one of the venturers and revenues and expenses billed between the venturers. The economic substance of the arrangements in both examples was seen by these respondents to be the same in all cases. According to these respondents, these examples appear to point out that an overriding emphasis had been placed on the legal form of the arrangement when deciding the corresponding accounting treatment.

d. Several respondents stated that the proposals should provide additional guidance in relation to when it is appropriate to look through the legal structure when deciding the suitable accounting.

I.II. US GAAP Convergence is questioned (Ref ED 9: IN2)

9. According to IN2, ‘the objective of the project is to reduce differences between International Financial Reporting Standards (IFRSs) and US Generally Accepted Accounting Principles (US GAAP).

10. Many respondents questioned whether the proposed standard will contribute to the achievement of convergence with US GAAP. For these respondents the proposals will rather create divergence. Divergence has mainly been perceived in the following two instances:

First case: equity method applied under the exposure draft but proportionate consolidation permitted under US GAAP

11. This first case of divergence has been widely commented upon. This would be the case for those arrangements that meet the definition of a joint venture under the proposals but that do not involve the establishment of a legal entity.

12. Many respondents identified this situation as an instance that is believed to create divergence rather than to reduce differences and therefore they questioned whether the elimination of proportionate consolidation will be convergent with US GAAP.

13. These respondents mostly referred to EITF-Issue No. 00-1, *Investor Balance Sheet and Income Statement Display under the Equity Method for Investments in Certain Partnerships and Other Ventures*. This pronouncement states that proportionate gross financial statement presentation is permitted only for an unincorporated legal entity in either the construction industry or the extractive industry where there is a longstanding practice of its use. A few of these respondents also referred to Accounting Interpretation (AIN) 2 of APB Opinion No. 18, *The Equity Method of Accounting for Investments in*

Common Stock to support their view that the removal of proportionate consolidation might not lead to the achievement of convergence with US GAAP.

Second case: equity method applied under US GAAP but not under the proposals in ED 9

14. Some respondents identified this situation as an instance that will create divergence. This would be the case for those arrangements that involve the establishment of a legal entity but are considered a joint asset or a joint operation under the proposals. For these cases, the equity method would be applied under US GAAP, while recognition of contractual rights and obligations, with the residual accounted for under the equity method would be required by the exposure draft.

15. This second type of divergence was commented upon mainly by accounting firms and professional bodies based in Europe and globally.

II. Comments relating to the Core Principle (Ref ED 9: IN4, Paragraph 1 & Invitation to comment – Question 2)

16. The core principle of the exposure draft states that parties to a joint arrangement recognise their contractual rights and obligations arising from the arrangement.

17. Many respondents questioned a number of matters in relation to the core principle of the draft standard. Most of the respondents raising a concern about the core principle were preparers, representative bodies of preparers and standard setters, geographically based in Europe and mainly representing the energy and accounting industries.

18. The main comments relating to the core principle are as follows:

Core principle is too broad

19. Several respondents stated that the core principle of the exposure draft is too broad to be of real value in this draft standard. For these respondents, the core principle seems to be a superior principle that could be equally applied to the accounting for most aspects of assets and liabilities, and therefore better placed in a conceptual statement such as the Framework.

Concerns over the implications of the core principle as drafted

20. The wording 'contractual rights and obligations' raised a number of questions among some respondents, as follows:

    a. Does 'contractual rights and obligations' include legal and constructive rights or does it limit the recognition to rights and obligations that are contractually enforceable?

    b. Does the core principle imply a change in the asset and liability definition?

    c. Does the IASB intend to exclude the control notion of the asset definition? Or does it imply that a contractual right automatically results in the capacity to control the benefits of the asset?

21. Uncertainties on the answers of the questions above caused the following comments or concerns among some respondents:

a. Concerns on whether the contractual rights and obligations will always reflect the substance of the arrangements and / or the intentions of the joint venture parties. In that sense, these respondents believed that recognition of contractual rights and obligations may inhibit the rights and obligations recognised to only those that arise from the contractual arrangements related to the joint arrangement.

b. In relation to 'contractual rights', a few respondents referred to paragraph 13 of IAS 38 *Intangible Assets* to highlight that the 'legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way'. Some of these respondents believed that the exposure draft appears to restrict the notion of control over an asset to control resulting from a contract.

c. In relation to 'contractual obligations', several respondents stated that under some arrangements obligations are not legal or contractual but are based on mutual constructive obligations. These respondents backed up their comments by stating that these were consistent with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

d. A few respondents commented that if there is no intention to change the definitions of assets and liabilities, the core principle should be rephrased. The suggestions received are mainly addressed towards the replacement of the words 'rights' and 'obligations' by the terms 'assets' and 'liabilities': 'Parties to a joint arrangement recognise their assets and liabilities arising from the arrangement'.

Proposals are not consistent with its core principle

22. Some respondents believed the proposals are not consistent with its core principle. The main argument used by these respondents is that the elimination of proportionate consolidation will not contribute to achieve a correct recognition of the contractual rights and obligations of the venturers. For these respondents, contractual rights and obligations might not be reflected in a relevant way in the financial statements when the equity method is applied instead of proportionate consolidation, as the one line equity method will result in a loss of significantly useful information.

Application of the core principle: accounting consequences and practicability

23. Several respondents stated that the core principle appears difficult to apply in practice. Some of these respondents believed that applying the core principle could make the accounting more complex. Some of the complex areas observed by these respondents relate to splitting up of assets into rights and recognising contractual rights and obligations arising from joint arrangements separately.

24. A few respondents believed the exposure draft should include a discussion of the underlying principles that are to be applied in meeting the objective of recognising the entity's contractual rights and obligations.

III. Comments relating to the Types of Joint Arrangement (Ref ED 9: Paragraphs 3-20 & Invitation to comment – Question 1))

25. The exposure draft proposes that the IFRS should be applied to arrangements in which decisions are shared by the parties to the arrangement. The exposure draft indentifies three types of joint arrangements – joint operations, joint assets and joint ventures. A party to an arrangement may have an interest in a joint operation or joint asset, as well

as an interest in a joint venture. Joint ventures are subject to joint control (see paragraphs 3-6 and 8-20 and Appendix A of the draft IFRS and paragraphs BC16-BC18 of the Basis of Conclusions).

26. We have classified and summarised the main comments received in relation to this section of the exposure draft as follows:

III.I. Comments relating to the descriptions of joint arrangements provided in the proposals

III.II. Comments relating to 'Joint Control' and 'Shared decision-making'

III.I. Comments relating to the descriptions of joint arrangements provided in the proposals

Existing definitions in IAS 31 did not present problems

27. Some respondents expressed that they were not aware of any significant problems in the existing definitions of IAS 31 and therefore it was unclear for them why the change was considered necessary.

28. Respondents sharing this view were predominantly preparers, representative bodies of preparers or professional bodies mostly based in Europe representing mainly the banking and accounting industries.

Change in the terminology of the generic term 'joint venture' might be a source of confusion

29. Some respondents stated that the term 'joint venture' in the exposure draft is a commonly used term to refer to different types of joint ventures (joint arrangements in ED9) in specific countries and specific industries. These respondents perceived this as a potential source for confusion for financial statement users and preparers and suggested the following terms to replace 'joint venture': 'joint activities' or 'joint undertaking'.

30. The respondents stating this view were mostly preparers and standard setters representing the energy and accounting industries based in Europe, North America and Asia-Pacific.

Proposals do not clearly explain what is the essence of a joint arrangement

31. Some respondents commented that the section of the exposure draft entitled ‘Types of joint arrangement’ requires an introduction to explain what is the essence of a joint arrangement, before introducing the three types of joint arrangement. Some of these respondents supported this argument by stating that the concept of ‘shared decision-making’ is not introduced until paragraph 7 and the definition of ‘joint control’ is addressed only in Appendix A of the proposals, even though these are considered to be fundamental features to a joint arrangement.

32. This results in the perception shared by some respondents that the proposals place more importance on the definition of the various types of joint arrangements rather than on the relationship in practice between investor and investee, which is the reality that should determine the accounting treatment.

33. Respondents sharing this view were mostly preparers, representative body of preparers and accounting firms, mainly from the energy and accounting industries based in Europe and globally.

Descriptions of Joint Arrangements are confusing which would make implementation difficult in practice

34. Many respondents believed there is a lack of clarity in the descriptions provided in the proposals for the different types of joint arrangements. This observation is reflected by the request from many respondents of further guidance in order to ensure appropriate implementation of the new descriptions of joint arrangements.

35. The main comments received in relation to this point are as follows:

    a. Some respondents stated that the types of joint arrangement are not defined but described. According to these respondents, proposals do not include an explicit definition of ‘joint asset’, ‘joint operation’ and ‘joint venture’, but merely allude to these concepts by way of narrative descriptions. This point was perceived as a deficiency that should be addressed to assist preparers and users.

b. A few respondents questioned the need to distinguish between the different types of joint arrangements at all. These respondents believed that the flowchart in Appendix B of the exposure draft illustrates how a party to a joint arrangement recognises its interests in the arrangement. If an entity should account for its rights and obligations in relation to a joint arrangement, the inclusion of the references to ‘joint asset’ and ‘joint operation’ could potentially be seen as superfluous given the underlying principle.

c. Many respondents stated that the descriptions of the different types of joint arrangements are not clear. Some of these respondents stated that it is not immediately evident from the proposals how the different types of joint arrangements interact and that they are not mutually exclusive.

d. Some respondents highlighted the complexity of the process aiming to determine the appropriate classification of joint arrangements. Further guidance was deemed to be necessary especially for cross-over situations whereby a joint arrangement includes both a joint asset and a joint venture, depending on the rights of a party to a joint arrangement. In that sense, a few respondents stated that the proposals should clearly explain the difference between a joint asset and an asset held by a jointly controlled entity and that guidance was considered necessary in order to assist in determining how exactly ring-fencing a joint arrangement with a legal entity impacts its classification and the resulting accounting treatment.

e. Some respondents revealed their confusion regarding the exact definition of a joint asset and its corresponding accounting treatment. This comment was supported by the following explanation. Joint assets are referred as ‘rights to a share of the asset’ or ‘rights to a share of a joint asset’ in paragraphs 12 and 13 of the draft standard. The term ‘right to use’ has been used in some of the Illustrative Examples in those cases when the arrangements involved a joint asset. However, paragraph 22 (a) of the proposals requires that a party recognises its ‘share of the joint asset’, classified according to the nature of the asset. According to these respondents, this inconsistency created concern in relation to the uncertainties that this poses on the resulting accounting treatment.

f. A few respondents observed that joint operation is described in paragraph 8 of the draft standard as a joint arrangement where each party uses its own assets, incurs its own expenses and raises its own financing. These respondents questioned whether all three criteria are required to meet the definition of joint operation as this is not directly evident from the proposals.

g. The description provided for joint ventures in paragraphs 15 to 20 caused two main confusions that were commented on by many respondents.

    i. The first source of confusion arises from the very definition of joint venture provided in paragraph 15, 'a joint venture is a joint arrangement, or part of a joint arrangement, that is jointly controlled by the venturers'. Many respondents stated that the significance of the words 'or part of a joint arrangement' is not apparent from the main body of the draft standard but is revealed in the flowchart of Appendix B and in the Illustrative Examples.

    'Part of a joint arrangement' reflects the notion that a joint venture can also be a 'residual', which was seen by a few respondents as lacking in economic reality. Several respondents believed it is not appropriate to define a joint venture by default (ie, 'those assets and liabilities of a joint arrangement that are not joint operations or joint assets of the venturers', as in paragraph 16 of the proposals) and that it should be defined on a stand-alone basis.

    The ambiguity and complexity in the definition of joint venture was perceived by a few respondents as a risk to divergence in practice.

    ii. The second source of confusion arises from the term 'business' used in paragraph 18 of the proposals. Many respondents stated it is unclear why the exposure draft includes this reference and how it is intended to be interpreted in light of the requirements of the standard. This observation was raised mainly by preparers, professional bodies and standard setters, based in Europe, North America, Asia-Pacific and globally, from the accounting, energy, and banking industries.

The most common doubt that the term cast is whether ‘business’ in paragraph 18 is providing an example of a joint venture or whether an entity would only have an interest in a joint venture when that joint venture is a ‘business’ as defined in the draft standard. Several respondents questioned whether ‘single asset’ entities could qualify as a ‘joint venture’ if the activities conducted by the entity are not a ‘business’. In that sense, a few respondents believed that a number of jointly controlled entities (joint ventures under ED 9) in the real estate industry comprising single properties without active management might not constitute a ‘business’.

A few respondents stated that the relationship between the term ‘business’ (paragraph 18) and the term ‘economic activity’ (paragraph 5) is not clear to them. These two paragraphs would imply that a ‘business’ is a subset of ‘economic activity’.

A few respondents suggested a number of options to avoid confusion: to delete references to a ‘business’, to combine the description of a ‘joint venture’ with the definition of a ‘business’ or to refer to a ‘business’ as defined in IFRS 3 *Business Combinations* instead of ‘economic activity’, which is a term that is not defined in the draft standard.

h. A few respondents questioned whether entitlement to a share of ‘output’ as in paragraph 15 of the proposals instead of ‘outcome’ would preclude treating an investment as an interest in a joint venture. These respondents did not perceive the distinction between ‘output’ and ‘outcome’ to be meaningful in classifying a joint arrangement.

i. Some respondents stated that the Illustrative Examples are not sufficiently detailed to allow preparers to understand the principles applied when determining the co-existence of both joint assets and joint ventures. Most of these comments referred to Illustrative Example 2 and Illustrative Example 5.

j. A few respondents observed inconsistencies between the Illustrative Examples and the descriptions of joint arrangements presented in the draft standard or did not agree with the conclusions reached in the proposals, as follows:

   i. Illustrative Example 4 presents the limited partnership that operates the jointly owned shopping centre as a joint venture. A few respondents expressed that they considered this example to relate to a joint asset, not a joint venture. Please note that the only respondent (a representative body) from the real estate industry that sent comments on the exposure draft was of the view that the example represented a joint asset.

   ii. The following fact raised doubts on the relevance of the term 'exclusive rights' in paragraph 12 of the proposals. When describing joint assets, paragraph 12 states that each party has 'exclusive rights' to a share of the asset and the economic benefits generated from that asset. However, in Illustrative Example 2, the decision of a party to the arrangement to sell its share requires the agreement of all other parties.

III. II. Comments relating to 'Joint Control' and 'Shared decision-making'

36. Many respondents representing mainly preparers, representative bodies of preparers, accounting firms and standard setters have expressed their view in relation to the way the draft standard has presented the concepts of 'joint control' and 'shared decision-making'. These respondents were mainly based in Europe and globally from the accounting, banking and energy industries.

37. In Appendix I of this agenda paper, we have included the definitions of the main terms the comments below refer to as provided by IAS 31 and ED 9.

38. The main comments received can be classified under the following topics:

Proposals grant less emphasis to 'joint control'

39. Some respondents believed that the draft standard does not grant enough emphasis to 'joint control'. They observed that the term 'joint control' disappeared from the

definition of ‘joint arrangement’ and that ‘joint control’ is no longer related to ‘joint asset’ and ‘joint operation’.

40. Several respondents commented that they did not agree with the Basis for Conclusions provided in paragraph BC 17 that states that the definition of control does not translate well to an asset or operation. These respondents supported this view by stating that control is fundamental to the definition of an asset based on the current Conceptual Framework.

Proposals provide a less explicit definition of ‘joint control’: the terms ‘strategic’ and ‘unanimous’ have disappeared from the definition

41. Many respondents stated that joint control should continue to be based on control over ‘strategic’ financial and operating decisions. For these respondents, the elimination of the term ‘strategic’ from the definition of joint control would mean that all financial and operating policies would have to be governed under joint control.

42. Many respondents observed that the reference to ‘unanimous consent of parties sharing control’ had been omitted from the definition of joint control. These respondents believed ‘unanimous consent’ is a key concept that should be included in the definition of joint control. Some respondents stated that the need for unanimity is not clearly stated in the new definition and that it must be deduced by combining the new definitions of ‘shared decisions’ and ‘party to a joint arrangement’. Several respondents mentioned that in this context the role of rights of veto should be specifically addressed as a means of ensuring unanimity of decisions.

Concerns in relation to ‘shared decision-making’

43. Several respondents stated that the proposed standard should articulate the principles that are to be applied in determining whether ‘shared decision-making’ exists in a particular arrangement and it should clarify the types of decisions that are required to be shared among the parties to the arrangement. In its existing form, these respondents argued that the exposure draft could be interpreted either that all, some or only major decisions require shared decision-making.

Proposals should consider arrangements with majority or super-majority decision making

44. Several respondents questioned the fact that the draft standard is restricted to arrangements with unanimous decision making requirement. These respondents stated that the substance of joint control is established by the parties entering into the joint arrangement at the outset and the fact that a party may have a majority or minority participating interest does not necessarily impact on the consideration of whether joint control exists.

45. The requirement of unanimity was seen by a few respondents as a feature that, when not fulfilled, could scope out supermajority arrangements, which, according to them, share the same economic characteristics as joint ventures as described in IAS 31.

46. Respondents sharing this view were mainly preparers and accounting firms, predominantly based in Europe and in Asia-Pacific from the energy, industrial metals and mining industries.

IV. Comments relating to Financial Statements of Parties to a Joint Arrangement (Ref ED 9: Paragraphs 21-34 - & Invitation to comment – Questions 2 & 3)

47. The exposure draft proposes:

a. that the form of the arrangement should not be treated as the most significant factor in determining the accounting.

b. that a party to a joint arrangement should recognise its contractual rights and obligations (and the related income and expenses) in accordance with applicable IFRSs.

c. that a party should recognise an interest in a joint venture (ie an interest in a share of the outcome generated by the activities of a group of assets and liabilities subject to joint control) using the equity method. Proportionate consolidation would not be permitted.

d. that an entity shall discontinue the use of the equity method from the date on which it ceases to have joint control over a joint venture, except when it retains significant influence.

48. This part of the exposure draft has been extensively commented upon by respondents. Comments received for this section of the paper derive mainly from answers to Questions 2 and 3 of the 'Invitation to comment'.

49. We have observed that comments received were in many instances directly related to concerns about the core principle of the draft standard, by the perception that the form of the arrangement is still a significant factor in determining the accounting treatment and by the difficulty anticipated in classifying the different types of joint arrangement appropriately. This reflects the close relationship between these topics and how the

accounting proposed in the exposure draft is understood, interpreted and assessed by respondents.

50. We have classified the comments received for this section into the following three areas:

IV.I. Comments relating to the accounting treatment proposed in the exposure draft: 'accounting for contractual rights and obligations'

IV.II. Comments relating to the elimination of proportionate consolidation

IV.III. Comments relating to the accounting treatment proposed to account for the loss of control

IV.I. Comments relating to the accounting treatment proposed in the exposure draft: 'accounting for contractual rights and obligations'

51. We have classified the comments received in relation to the accounting treatment proposed as follows:

    a. Concerns relating to the lack of clarity perceived in the accounting requirements

    b. Concerns relating to the complexity perceived in the accounting requirements

    c. Concerns raised by the accounting treatment proposed for the 'residual'

    d. Concerns in relation to the costs and practical application of the new accounting requirements

52. The main comments for each of these categories are as follows:

Concerns relating to the lack of clarity perceived in the accounting requirements

53. Many respondents stated that the exposure draft lacks clarity in the articulation of its principles and accounting implications. Some respondents expressed the view that more discussion is needed of the term 'contractual rights and obligations' in a joint control environment before the concepts can be robustly applied in complex situations.

54. The respondents sharing these concerns were mainly preparers and representative bodies of preparers, standard setters, accounting firms and professional bodies, based in

Accounting requirements proposed are not clear: ‘in accordance with applicable IFRSs’

55. Many respondents believed there is insufficient guidance in the exposure draft around the nature of assets and liabilities that may be recognised on application of the proposals as the exposure draft states that these shall be recognised in accordance with ‘applicable IFRSs’, without further clarification.

Accounting requirements proposed are not clear: ‘rights to use’ or ‘share of the joint asset’?

56. The main uncertainty revealed by many respondents is whether a party to a joint asset should recognise its ‘rights to use’ or whether it should recognise ‘its share of the joint asset’. The concern raised by this uncertainty is the different accounting implications of these two possible interpretations of the accounting requirements, which may result in divergence in implementation (i.e., assets could be potentially classified as property, plant and equipment under IAS 16 *Property, Plant and Equipment* or possibly IAS 17 *Leases,* or as intangible assets under IAS 38).

57. A respondent pointed out, that under IAS 17, such a ‘right to use’ might also qualify as an operating lease. This would mean that the holder of such a right would be precluded from recognising the asset that is the subject of the lease in its financial statements.

Recognition of parts of assets raised concerns on the ‘unit of account’ to be considered

58. Several respondents stated that the draft standard does not provide guidance on the decision surrounding the determination of a part of an asset as the unit of account. Some of the areas highlighted where further guidance would be required, are as follows:

   a. Factors that should be considered in the determination of a part of an asset as the unit of account.
   b. Bases under which the unit of account can be delineated (eg, does the unit of account extend to undivided interests in assets, finance and operating leases,

time-share agreements, rights of access for particular time periods, encumbrances and other rights over land, etc,?).

c. How should the nature of the assets and liabilities to be recognised be determined?

Recognition and measurement of obligations

59. A few respondents stated that the proposals needed to be clearer on the recognition criteria to be followed in the case of obligations. Specifically, these respondents requested which IFRSs they would need to apply for the recognition and measurement of contractual obligations, and whether these should be limited to legal and contractual obligations or should constructive obligations also be considered.

Difference between accounting for 'contractual rights and obligations' and proportionate consolidation is not clear

60. A few respondents stated that it is difficult to understand what is the exact difference between an entity recognising its own assets, liabilities, revenue and expenses and the entity's proportionate consolidation of another entity's assets, liabilities, revenue and expenses. A respondent commented that ED 9 may achieve wider acceptance if this was explained in the Basis for Conclusions.

Concerns relating to the complexity perceived in the accounting requirements

61. Some respondents stated that 'accounting for contractual rights and obligations' is more complicated than existing requirements and may require more analysis without giving materially different results from those under proportionate consolidation. They felt that the financial reporting costs might increase as a result. These respondents were mainly preparers, standard setters, accounting firms and professional bodies, based in Europe or globally representing a wide range of industries.

62. Some respondents expressed that the accounting proposed is complex especially in relation to the following areas:

Splitting up of contractual arrangements

63. Several respondents stated that the ‘dismemberment’ approach suggested, in which some arrangements would have to be split up into contractual rights and obligations, seems to give rise to added complexity on consolidations and to ‘opacity’ of consolidated information. These respondents indicated that a more pragmatic approach focussing on material aspects of related risks and rewards rather than ‘theoretical and conceptual purity’ would be more beneficial.

Recognition and measurement of ‘rights’

64. Several respondents highlighted this to be a complex area. The main concerns raised relate to the lack of guidance to address the following issues:

    a. Allocation of the acquisition cost of an asset to the different rights at initial recognition (i.e., ‘rights to use’, ‘right to the residual value’, etc.).
    b. How to proceed in cases where the total value of all individual rights exceeds or falls short of the price paid for the asset.
    c. Accounting for subsequent enhanced capital expenditures, depreciation or impairment.
    d. How ‘rights to use’ should be measured. Reading Illustrative Example 2, several respondents questioned how, in practice, an industrial group running several factories with another group would be able to measure the rights to use the factories, carry them on its balance sheet and then, in the joint venture, recognise the factories without their operating rights.

65. A few respondents highlighted that ‘rights of use’ are already dealt with IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*. These respondents stated that there could be boundary issues between these standards and ED9.

Concerns raised by the accounting treatment proposed for the 'residual'

66. Some respondents, mainly professional bodies, accounting firms and preparers based predominantly in Europe and globally, observed that in some cases an arrangement may give rise to a residual element that is a liability. These respondents highlighted that by limiting the recognition of any further liability to the conditions currently in place in IAS 28 *Investments in Associates,* there was a danger that liabilities will not be recognised when there is considered to be no legal or constructive obligation. These respondents feared that under the proposals the venturers may not recognise a liability that would be recognised under the existing standard whereby the company would be equity accounted or proportionately consolidated as a jointly controlled entity. The variation to Illustrative Example 2 was referred by some of these respondents to reflect the concern that under the proposals the venturer may not recognise a residual which is likely to be negative, i.e. a net liability, unless it has an obligation to meet these liabilities.

67. A respondent stated that the proposals should require that the share of a net liability in a joint venture is recognised in such circumstances.

68. Other concerns raised by some of these respondents are related to the assessment of the nature and the measurement basis for equity accounting of the residual assets and liabilities accounted for by the jointly controlled entity. These respondents felt that further guidance was necessary.

Concerns in relation to the costs and practical application of the new accounting requirements

69. Some respondents expressed that the accounting treatment proposed would be demanding on resources and may result in higher costs.

a. Some respondents believed that the analysis of the arrangements, in order to identify the assets to be separately accounted for, will result in significant initial implementation and recurring costs. These increased costs may outweigh the decision usefulness of this information.

b. Entities currently applying proportionate consolidation will need to develop specific information for primary financial statements while maintaining current consolidation procedures for internal reporting and relevant information in the notes.

c. Some respondents stated that industrial groups with material joint ventures may try to convert them into joint assets. The costs that this action may result in are not expected to outweigh benefits.

70. Some respondents questioned whether the practical application and implications of the proposed accounting treatment had been explored fully. Several of these respondents stated that the proposals are too theoretical and inapplicable in practice.

IV.II. Comments relating to the elimination of proportionate consolidation

71. A majority of the respondents did not agree with the elimination of proportionate consolidation. These respondents questioned the appropriateness of eliminating

proportionate consolidation. We have summarised the main arguments to support this viewpoint below:

a. Proportionate consolidation offers more meaningful and useful information and provides a better reflection of the economic substance of the arrangements.

b. Elimination of proportionate consolidation will lead to the same accounting treatment for ‘joint control’ and ‘significant influence’.

c. The exposure draft does not offer compelling arguments:

    i. to support that equity accounting is conceptually the best method to account for joint arrangements.

    ii. to support the elimination of proportionate consolidation.

d. Application of the terms ‘control’ and ‘joint control’ in the proposals is questioned

e. Consequences resulting from the elimination of proportionate consolidation

Proportionate consolidation offers more meaningful and useful information and provides a better reflection of the economic substance of the arrangements

72. The main comments related to this section are as follows:

a. Many respondents believed that proportionate consolidation better meets the information needs of users of financial statements by providing more meaningful information and reflecting better the substance of joint arrangements in the following circumstances:

    i. When joint venture operations are an integral part of the core business of the entity and represent a significant percentage of the entity’s turnover and operating results. These respondents envisaged activities carried out through joint ventures as an extension of the group's activities and therefore they believed these should be reflected in the financial statements.

ii. Proportionate consolidation better shows the benefits which the entity is entitled to and the risks arising from its operations. In this sense, these respondents believed that proportionate consolidation represents a better method of recognising the rights and obligations.

iii. Proportionate consolidation provides a better representation of the performance of the venturer's participation in the joint venture and an improved basis for predicting future cash flows than the equity method does.

Some respondents stated that when venturers are jointly involved in the management of the activities of the joint ventures, at board level and on an operational level, and ensuring its liquidity and solvency, proportionate consolidation is a better method of accounting.

For these respondents, management decision making and risk management are based on a detailed understanding of the underlying operations, assets, liabilities, cash flows, risks, and not on the share of net outcomes. According to these respondents, the incorporation of the venturer's share of these assets, liabilities, revenues and expenses in the financial statements provides users with a fuller view of the scale of the operations managed and the associated risks.

iv. Several respondents in the Construction & Materials and Energy industries stated that proportionate consolidation leads to a more faithful representation of the activities they are involved in.

These respondents stated that in these industries it is common practice that more complex and larger projects are executed by several companies using the legal form of a joint venture to run the project and to place all legal and contractual rights and obligations.

In this type of project the venturers share voting rights and all other rights and obligations of a capital holder; including joint power to govern strategies, operating and financial policies and share proportionally in the risks and rewards. According to these respondents, venturers do not have either direct rights in the assets nor direct obligations in the liabilities. For these respondents, proportionate consolidation is a superior method to account for these types of joint arrangements than the equity method.

b. Many respondents considered the rationale in favour of proportionate consolidation provided in paragraphs 32 and 40 of IAS 31 as still being valid and expedient.

Elimination of proportionate consolidation will lead to the same accounting treatment for 'joint control' and 'significant influence'

73. Many respondents commented on this. The comments of these respondents are mainly focused on the view that the accounting treatment should be different for situations of 'joint control' and 'significant influence' and that the Basis for Conclusions provides no convincing arguments to support the same accounting treatment.

Respondents expressing these views were mainly preparers, representative bodies of preparers and standard setters from the accounting and 'other' industries predominantly based in Europe.

Accounting treatment should reflect the different degree of control between 'joint control' and 'significant influence'

74. Many respondents stated that 'joint control' and 'significance influence' represent a different degree of control and believed therefore that this should be reflected in the accounting treatment. For these respondents 'joint control' typically envisages a higher degree of management involvement and influence on business decisions, both at board and operational levels than 'significant influence' does. For these respondents, 'significant influence' is frequently exercised over an associate by the investing entity's

having a representative on the associate's board. Some of these respondents believed that applying the same accounting method for 'joint control' and 'significant influence' may mislead users of financial statements by eliminating any difference between the two on the face of financial statements. In this sense, some respondents highlighted that the differences between the two types of investment need to be analysed and fully understood before any conclusion can be reached about an appropriate method to account for joint arrangements.

Arguments provided in the Basis for Conclusions are not found to be convincing

75. Some respondents stated that even though the Board acknowledges that 'significant influence' and 'joint control' are different, as mentioned in BC 14 of ED 9, they did not find the explanation that consideration of the merits of the equity method is outside the scope of the short-term project, to be a persuasive argument. Several respondents expressed the view that even though this might be outside the scope of a short-term project, this could be considered an indication that a short-term project of this nature is at risk of reaching premature conclusions and introducing the need for further changes in the future.

76. Some respondents found the other argument provided in BC 14 that the equity method has been used to account for joint ventures in jurisdictions around the world for many years to be unconvincing as a justification for eliminating proportionate consolidation. These respondents stated that this statement could be equally true for the case of proportionate consolidation.

The exposure draft does not offer compelling arguments

77. Many respondents found the arguments provided by the draft standard to be insufficient in order to:

    a. support the view that equity accounting is conceptually the best method to account for joint arrangements

i. Many respondents stated that before eliminating one of the current options, all possible options should be properly evaluated to identify which ones are the most and the least useful. According to many respondents, such a comparative analysis is an essential part of the decision for eliminating one of the methods currently allowed.

ii. Many respondents did not believe that the exposure draft provides sufficient support for the proposal to eliminate proportionate consolidation as an option. These respondents stated that the proposals should clearly explain the merits of equity accounting that warrant it being viewed as a superior method of accounting for joint arrangements. The fact that such an analysis is outside the scope of this short-term project is not satisfactory, according to many respondents.

iii. Many respondents believed that it is, therefore, premature to eliminate proportionate consolidation based on the insufficient arguments provided by the exposure draft. These respondents highlighted that more research to come up with a more comprehensive solution is considered necessary to determine the appropriate accounting treatment for joint arrangements taking into account the specific characteristics of joint control.

b. support the elimination of proportionate consolidation

i. Many respondents stated that they did not believe the proposals developed an adequate argument as to why proportionate consolidation, rather than equity accounting, should be removed as an option for accounting for joint ventures.

ii. We have summarised below two of the arguments included in the exposure draft to support the elimination of proportionate consolidation, and the reactions received from respondents.

First argument commented: Proportionate consolidation inconsistent with the Framework (BC 8, BC 9 and BC 12)

78. The argument offered by the Basis of Conclusions that proportionate consolidation is inconsistent with the Framework was widely commented on by respondents. For many respondents the Board based its decision to eliminate proportionate consolidation considering only this argument.

79. Respondents'comments are reflected below:

a. *It is perceived to be premature to eliminate proportionate consolidation on the grounds of non compliance with the Framework*

i. Some respondents believed it is premature to eliminate proportionate consolidation on the grounds of non compliance with the Framework, considering that Phase B of the Conceptual Framework project dealing with the definition of assets and liabilities is currently being discussed and deliberated. These respondents considered that the arguments provided in the Basis for Conclusions are insufficient to justify a change that is believed to be disruptive for both preparers and users.

ii. A respondent stated that both proportionate consolidation and the equity method are difficult to support by reference to the current Framework, and, as a result, questioned whether the arbitrary elimination of proportionate consolidation without a complete analysis was appropriate.

b. *Elimination of proportionate consolidation represents a change of direction that has not been clearly explained in the exposure draft*

As mentioned above, the statement included in paragraph 31 of IAS 31 that proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity is still valid for many respondents. Many respondents stated that when the current IAS 31 was amended in 2003, the Board did not raise the issue of proportionate consolidation being inconsistent with the Framework. These respondents believed that the Board did not clearly explain the reasons for its change of view, particularly considering that the Framework had not changed since 2003.

c. *Recognition of a ‘share of a joint asset’ could also be inconsistent with the Framework*

i. Some respondents believed that paragraph 22 (a) of the exposure draft, stating that a party shall recognise its share of the joint asset, could be potentially inconsistent with the definition of an asset in the Framework. Paragraph 9 of the Basis for Conclusions states that ‘recognising a proportionate share of each asset and liability of an entity is not consistent with the Framework, which defines assets in terms of exclusive control and liabilities in terms of present obligations’. These respondents stated that the argument of inconsistency with the Framework used to support the elimination of proportionate consolidation could also be used in the case of the recognition of a share of a joint asset because the reporting party does not have exclusive control over the underlying asset.

ii. A few respondents questioned whether it was appropriate for the exposure draft to draw such a fundamental distinction between the quality of control that an entity enjoys over a joint asset and that the control it enjoys over an asset owned by a joint venture which the entity jointly controls at this time.

d. *The reference to ‘exclusive’ control does not exist in the current definition of an asset and liability*

Some respondents stated that the reference to ‘exclusive’ control used in BC 9 is misleading, as ‘exclusive’ control is not included in the current definition of an asset or liability.

e. *It has not been proved that the equity method is consistent with the Framework*

Some respondents questioned whether the equity method would itself be consistent with the Framework.

f. *The Framework also covers the objectives and the qualitative characteristics of financial information*

Some respondents stated that the Framework also requires faithful representation of the transactions, true representation of performance of the enterprise through its financial statements and that the information provided meets the qualitative characteristics of understandability, relevance, reliability and comparability. For these respondents, proportionate consolidation better fulfils these Framework requirements than the equity method.

g. *The Framework does not discuss the reporting entity concept or the methods of consolidation*

Several respondents stated that the method of accounting for jointly controlled entities is primarily a question of the scope of the reporting entity and methods of consolidation. These respondents have stated that the Framework does not discuss the reporting entity notion or consolidation methods at all. For these respondents it is necessary to identify first the reporting entity, and if jointly controlled entities are determined to be part of the reporting entity, then a suitable consolidation method must be found.

<u>Second argument commented: Enhanced disclosure requirements would provide better information that proportionate consolidation (BC 13)</u>

80. The argument given by the Basis of Conclusions that enhanced disclosure requirements of the proposed IFRS would provide better information about the assets and liabilities of a joint venture, than is provided by using proportionate consolidation was commented on by some respondents. These respondents did not consider the argument to replace one method by another method plus disclosures to be a strong one. For these respondents, the Board would be condoning what IAS 1 *Presentation of Financial Statements* paragraph 16 warns against, 'inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material'.

Application of the terms 'control' and 'joint control' in the proposals is questioned

81. Some respondents questioned the application of the term ‘control’ used by the proposals. This was reflected in a number of different comments summarised below. Respondents raising concerns on the way ‘control’ has been interpreted and applied in the proposals were predominantly preparers, from a wide range of industries based in Europe.

a. A few respondents stated that they believed the term ‘control’ is not applied consistently throughout the proposals. For these respondents, the proposals include two notions of control that are being used interchangeably throughout the draft standard: control of an entity and control of an asset. These respondents identified this inconsistency when the proposals define a joint venture as a jointly controlled arrangement and, at the same time, the suggested accounting treatment consists of splitting up the joint controlled arrangement into assets and liabilities that are not jointly controlled. For these respondents, the level at which the term ‘control’ is applied, has changed from entity level to individual asset level.

   For these respondents, ‘joint control’ of a company is a question of composition of the company’s boards; joint control of the assets and liabilities is not defined by contractual rights relating to individual assets and liabilities, but rather by the rules and mechanisms that govern the joint venture and ensure joint control of the joint venture. Leading on from this, these respondents stated that if the assets are controlled by the board and the board is jointly controlled by, for example, two venturers, then these assets cannot be controlled by only one of the venturers.

b. A few respondents have highlighted that the proposals might be inconsistent with the approach taken by IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*

   An argument provided by one of these respondents is that under IAS 27 an entity would be required to consolidate a subsidiary with non-controlling interests in a jurisdiction where minority shareholders are protected, such that the controlling entity cannot require the transfer of specific assets without the consent of the minority shareholders. In this case the entity may not have ‘exclusive control’ of the assets and liabilities, however the subsidiary will nevertheless be consolidated.

A few respondents have also referred to *SIC 12*, whereby a special purpose entity (SPE) would also be consolidated when it is controlled by the entity, or when it is deemed to have the majority of risks and rewards, even though the entity may not be able to access freely the assets of the SPE.

Some of these respondents questioned why a SPE should be consolidated while a joint venture should not be allowed to be proportionately consolidated and suggested that the indicators used to decide whether control exists for an SPE should be equally applied to the venturer's interest in a jointly controlled entity.

c. A few respondents stated that they did believe joint control is closer to control than to significant influence. These respondents believed that proportionate consolidation should be seen as a consolidation method rather than a model for determining how to recognise separate assets and liabilities. Some of these respondents failed to understand why joint assets are allowed to be recognised in parties' financial statements, whereas, the proportionate consolidation method is not permitted.

Consequences resulting from the elimination of proportionate consolidation

82. We have summarised below the comments received by many respondents, who believed that the elimination of proportionate consolidation will have disadvantageous consequences.

a. Financial information relegated to the footnotes

Some respondents believed that the proposed disclosures would involve taking much of the information that proportionate consolidation puts on the balance sheet and relegating it to the footnotes.

b. Disconnection between internal management and external financial reporting and inconsistency with IFRS 7 *Financial Instruments: Disclosures* and IFRS 8 *Operating Segments*.

Some respondents stated that many groups use proportionate consolidation for internal management accounting purposes. According to these respondents, the elimination of this option would therefore lead to divergence between internal (management) and external reporting. This comment was expressed particularly strongly by respondents from the banking industry, since risk management of joint ventures in this industry is generally based on the proportionate consolidation of exposures.

Some respondents noted that a number of recently issued standards, for example IFRS 7 and IFRS 8, favour disclosure based on the information provided internally to key management personnel. For these respondents, the proposals will lead to inconsistency with these standards, since operating segment and risk management information are both based on proportionate consolidation.

c. Elimination of proportionate consolidation may distort Key Performance Indicators

Some respondents believed that the elimination of proportionate consolidation may confuse users of financial statements, particularly when comparing companies who operate on a stand-alone basis with those that operate with joint ventures. The concern of these respondents is that Key Performance Indicators such as EBITDA, Operating Profit, Profit Before Tax, provided by these companies will no longer be comparable and consistent. In relation to this point, a few respondents stated that the introduction of the exposure draft could, therefore, have a negative effect on companies' financial communication strategies. These respondents believed that the changes proposed will result in a more frequent use of non GAAP measures by public companies to explain their results to investors. As a consequence, relevance and understandability of the financial statements is expected to decrease.

d. Other risks associated with the elimination of proportionate consolidation

Some respondents stated that the introduction of the draft standard could have a negative effect on business strategies and companies would be obliged to reconsider the legal structure of existing joint ventures or future joint venture projects, with the risk that some projects and market expansion strategies might be abandoned.

IV.III. Comments relating to the accounting treatment proposed to account for the loss of control

83. This section of the exposure draft has not been heavily commented on. Comments on this section were received mainly from standard setters and accounting firms based in Europe and globally. The points below represent the most significant comments raised by these respondents.

84. Some respondents highlighted that the proposals are inconsistent with the revised IAS 27 since this standard requires a non-controlling equity investment in a former subsidiary (or joint venture) to be re-measured to fair value when the parent loses control (or joint control) of the subsidiary (or joint venture). However, the exposure draft requires that when a venturer ceases to have joint control over a joint venture but retains significant influence, such that the investor continues to account for its investment using the equity accounting method, both before and after the loss of joint control, the investor will not re-measure the retained interest to fair value.

85. One of these respondents stated that the proposals offer no guidance on how joint assets that form part of the same joint arrangement should be accounted for when joint control is lost.

V. **Comments relating to Disclosures (Ref ED 9: Paragraphs 36-41 & Invitation to comment – Questions 4, 5 & 6)**

86. The section of the exposure draft relating to disclosures (ED 9: 36-41) has prompted a lower volume of comments. Respondents generally only referred to it when answering questions 4 to 6 of the Invitation to comment.

87. We have classified the main comments received from the answers on the questions above under the following categories:

General comments received in relation to disclosure requirements

88. Many respondents stated that the proposals lead to the relegation of key operating information to the notes, rendering the financial statements less relevant for users. These respondents believed the disclosures required are as a result of eliminating proportionate consolidation or as a reflection of the accounting methodology proposed not necessarily being an optimal solution.

    Respondents supporting this view were mainly preparers, representative bodies of preparers, accounting firms and standard setters from a wide range of industries mainly based in Europe.

89. Some respondents stated that in the event of the equity method being finally required to be applied to joint ventures, the exposure draft does not require enough disclosures. Some of these respondents stated that the proposals should require further breakdown of the balance sheet and income statements, along the lines of the main financial statements, for the total of the non consolidated joint ventures, with an emphasis on the main operating performance indicators.

    Respondents supporting this view were mainly preparers, from a number of industries mainly based in Europe.

90. A few respondents suggested the following disclosure alternatives until a better method of accounting for joint arrangements is presented. These respondents were mainly representative bodies of preparers based in Europe.

a. Adopt a different presentation in the primary financial statements to differentiate the share of results, assets, liabilities and cash flows of jointly controlled entities that are included in the financial statements.

b. Provide more disclosures to support management´s choice of proportionate consolidation and provide more information about the joint ventures in order to help the reader understand the importance of these entities to the reporting entity.

Comments received in relation to disclosure requirements for joint ventures

91. Some respondents stated that disclosure requirements included in paragraph 39 (b) for each individually material joint venture and in total for all other joint ventures are excessive and should be required for total joint ventures only.

Some of these respondents stated that there is no such requirement in IAS 28. Some of these respondents pointed out that it may be useful to provide guidance on how to assess whether a joint venture is an ‘individually material joint venture’, and as such warrants separate disclosure.

Respondents supporting this view were mainly preparers, from a wide range of industries, primarily based in Europe.

92. A respondent questioned how the disclosures required for joint ventures could be useful where a joint venture is a residual of a joint arrangement?

93. Some respondents stated that, in those cases where joint ventures are often created to support only one contract, the disclosure requirements of paragraph 39 (b) would lead commercial sensitive information being published. These respondents disagreed, therefore, with these disclosures.

The respondents that raised this point were mainly preparers and standard setters, primarily carrying out industrial engineering and industrial service activities based in Europe.

94. A few respondents disagreed with disclosing the proportionate share of capital commitments or contingent liabilities in a joint venture, since this appears to contradict the fact that the reporting entity only has an interest in the net outcome of the joint venture.

For some of these respondents, these commitments should only be disclosed in situations where they represent a potential cash outlay for the reporting entity.

Respondents supporting this view were mainly preparers and representative body of preparers mostly based in North America.

Comments received in relation to disclosure requirements for commitments and contingent liabilities included in paragraphs 37 (a) and 38 (a) of the proposals

95. A few respondents stated that in the case of joint assets and joint operations for which the assets and liabilities, income and expenses are to be accounted for in accordance with the relevant IFRSs, they did not perceive the need for any disclosures over and above those required by each of those standards.

Respondents expressing this view were mainly representative bodies of preparers based in Europe.

Additional disclosures should be required

96. Some respondents introduced a number of additional disclosures that they believed the draft standard should also include. The comments below are the most frequently stated comments by these respondents, who represented mainly professional bodies and preparers, primarily from the accounting, energy and industrial metal industries based in Europe, Africa and globally.

a. A few respondents stated that separate disclosure should be required of the amounts, included in each balance sheet line item, which represent the reporting entity´s interest in the assets and liabilities of joint arrangements that are classified as joint operations and joint assets.

b. A few respondents stated that the disclosure requirements included in paragraph 39 (b) for joint ventures should include information of dividends paid, cash flow and tax allocation.

c. A few respondents stated that it would be useful if an entity were to be required to provide a list of individually material joint ventures that are legal entities, with their legal names, and those that are not.

d. A few respondents stated that the draft standard should require disclosures for those joint ventures that comply with the exemption provided in paragraph 23 of the exposure draft along the lines of the requirements in paragraphs 37 (h) and (i) of IAS 28.

Disagreement or partial disagreement with the proposal to restore to IAS 27 and IAS 28 the requirement to disclose a list and description of significant subsidiaries and associates

97. The main comments received in relation to the point above are as follows:

a. Some respondents stated that they did not agree with disclosing a list and description of significant subsidiaries and associates. The main reason according to these respondents was due to the complexity of implementation and related benefits to users.

These respondents believed that this requirement would be difficult to implement for large groups, which would need to assess a large number of subsidiaries and associates for ‘significance’ with little evidence to suggest that users of financial statements need this information.

Respondents expressing this view were preparers and representative bodies of preparers, from a wide range of industries, based in Europe and North America.

b. A few respondents stated that there could be duplication between this type of disclosure and existing similar disclosure requirements to be presented in the management commentary in specific jurisdictions.

Respondents stating this point were a preparer and a representative body of preparers, representing the banking and energy industries, based in Europe.

c. A few respondents stated that they did not agree that it is necessary to provide a description of each subsidiary and associate. These respondents were mainly preparers, representing the energy industry, based in Asia-Pacific and North America.

Disagreement or partial disagreement with aligning disclosure information of joint ventures and associates

98. Some respondents expressed their doubts on the benefits and usefulness of the information to investors, that would arise from the disclosure of current and non-current assets and current and non-current liabilities of an entity's associates.

Some of these respondents backed up this argument by stressing that an investor in an associate would have no possibility to block decisions regarding the asset and liability allocation of an associate and that the cash flows of the reporting entity will generally be more closely affected by those of the joint ventures than by those of its associates.

Respondents supporting this view were mainly preparers and standard setters from a wide range of industries predominantly based in Europe.

99. A few respondents stated that, since they do not support the same accounting treatment for situations of significant influence and joint control, they did not support the alignment of disclosures required for joint ventures with those required for associates.

Respondents stating this view were mainly standard setters based in Europe.

100. Several respondents stated that the disclosure requirements in relation to summarised financial information of the venturer´s interest, required for each individually material joint venture and in total for all joint ventures, is inconsistent with IAS 28, since this

standard requires only the summarised financial information of associates to be presented in total for all associates.

This viewpoint was shared by many of the different types of respondents, predominantly from the accounting and other industries based in Europe, Africa, Asia-Pacific and globally.

101. Some respondents, representing preparers and representative bodies of preparers in the banking and real estate industries, stated that the concept of current and non-current assets and current and non-current liabilities is not relevant to them, either because their financial statements are presented according to liquidity, or because their operating cycle is longer than one year.

VI. <u>Comments relating to the Effective Date (Ref ED 9: Paragraph 42)</u>

102. A few respondents expressed their concern on applying the resulting IFRS retrospectively. For these respondents, this would involve the re-assessment of old transactions and circumstances accounted for under IAS 31, which they felt to be extremely difficult and would require undue cost and effort. These respondents proposed applying the resulting IFRS prospectively for new transactions and circumstances in the scope of the exposure draft.

The respondents expressing this view were professional bodies from South Africa and Asia-Pacific and a preparer from the telecoms industry based in Europe.

Appendix I – Definitions of key terms as in IAS 31 *Interests in Joint Ventures* and ED 9

We have included the following definitions as they appear in IAS 31 and ED 9, since this may be beneficial in analysing the comments received from respondents included in the section *'Comments relating to 'Joint Control' and 'Share decision-making'* of this paper.

According to IAS 31:

- A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.
- Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
- A venturer is a party to a joint venture and has joint control over that joint venture.
- An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

According to Appendix A of ED 9:

- Joint Arrangement: A contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to that activity.
- Joint Control: The contractually agreed sharing of the power to govern the financial and operating policies of a venture so as to obtain benefits from its activities.
- Shared decisions: Decisions that require the consent of all of the parties to a joint arrangement.
- Party to a joint arrangement: An entity that participates in shared decisions relating to the joint arrangement.
- Venturer: A party to a joint venture that has joint control over that joint venture.