

c/o KAMMER DER WIRTSCHAFTSTREUHÄNDER  
SCHOENBRUNNER STRASSE 222–228/1/6  
A-1120 VIENNA  
AUSTRIA

TEL +43 1 811 73 – 228  
FAX +43 1 811 73 – 100  
E-MAIL [office@frac.at](mailto:office@frac.at)  
WEB <http://www.frac.at>

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir David,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the Exposure Draft 9 Joint Arrangements (September 2007). Principal authors of this comment letter were Christoph Fröhlich, Peter Geyer, Dieter Nefischer and Roland Nessmann.

**Q1.** *Do you agree with the proposal to change the way joint arrangements are described?*

We believe that recognition of the contractual rights and obligations is superior to the present recognition based on legal form. As explained in BC17, the ED defines joint arrangements in terms of 'shared decisionmaking' rather than 'joint control', which usually better reflects the contractual terms, especially for joint operations and joint assets. The restriction of the term 'joint venture' to joint arrangements that are subject to joint control, where parties' interests are restricted a share of the outcome of economic activities, is a further logical step when accounting only for those aspects of a joint arrangement that are under the control of the parties to the arrangement.

However, we do not agree with the definition of "joint control" in the ED, because the element of "unanimous consent" required under IAS 31 is missing. The definition in the ED in terms of "sharing

the power" can be interpreted in various ways, and we believe that this might lead to varying interpretations in practice.

**Q2.** *Do you agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangements?*

We agree with the principle that the contractual rights and obligations relating to the arrangements must be recognised in the financial statements of the parties to the joint arrangement. The proposals in the ED are to a large extent consistent with this objective. For most joint arrangements the principles as set out will be sufficient.

**Q3.** *Do you agree that proportionate consolidation should be eliminated, bearing in mind that a party would recognise assets, liabilities, income and expenses if it has contractual rights and obligations relating to individual assets and liabilities of a joint arrangement?*

Joint arrangements are often a mixture of joint assets, joint operations and joint ventures. We therefore support the ED in its attempt to separate rights & obligations, and joint assets and liabilities, from residual interests.

However, we see difficulties in applying the rules of the ED in practice. The proper allocation of the different aspects of joint arrangements to the appropriate types of arrangements (as demonstrated the illustrative examples) may not easy to derive from the text of the ED. Brief guidance supporting allocations at the end of the section 'Types of joint arrangements' would be helpful. For example, a venturer might have a residual interest in a joint venture, but be fully liable for its share of liabilities. As long as the joint venture has positive net assets, should the venturer account for the complete joint venture using the equity method or should it account for its share of liabilities separately and use the equity method for its share in the assets (which would result in a gross presentation, with two balance sheet items)?

In the BC to the ED, there is no serious theoretical justification of why the equity method is superior to the proportionate consolidation for joint ventures. We recognise that joint control over an asset is something different from full control over a part of an asset, and agree that there is no reason for showing 50% of an asset in the balance sheet in the absence of full control over that 50%, and therefore we agree with the elimination of proportionate consolidation.

A point for consideration is that – according to Phase II of the business combination project – any change of consolidation method should lead to a remeasurement at fair value. If joint ventures are accounted for using the equity method in the same way as associates, it is not clear whether there is a

change of consolidation method or not. We therefore believe that the Board should clarify whether a switch from joint control to significant influence or vice versa should be seen as a transaction with change of control which should lead to a remeasurement at fair value, or not.

**Q4.** *Do you agree with the disclosures proposed for this draft IFRS?*

We agree that a joint venture is indeed different from an associate, and therefore different disclosure requirements may be appropriate even if both investments are accounted for using the equity method.

However, we see no reason for disclosing the amounts for material joint ventures separately. The ED does not define the term “material” in this respect and if “material” is interpreted as in the Framework, the disclosures would have to be made separately for nearly every joint venture.

**Q5.** *Do you agree with the proposal to restore to IAS 27 and IAS 28 the requirements to disclose a list and description of significant subsidiaries and associates?*

A list of significant subsidiaries, joint ventures and associates would be desirable, in order to provide an overview. A description would not however seem to be necessary.

**Q6.** *Do you agree that it is more useful to users if an entity discloses current and non-current assets and liabilities of associates than it is if the entity discloses total assets and liabilities?*

We agree.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl  
Chairman