

Date

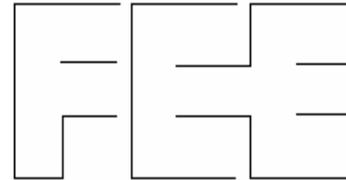
Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

Av. d'Auderghem 22-28/8  
1040 Bruxelles  
Tél. 32 (0) 2 285 40 85  
Fax: 32 (0) 2 231 11 12  
E-mail: secretariat@fee.be

24 January 2008

Mr. Stig Enevoldsen  
Chairman  
Technical Expert Group  
EFRAG  
Avenue des Arts 13-14  
B-1000 BRUXELLES



commentletter@efrag.org

Dear Mr. Enevoldsen,

**Re: EFRAG Draft Comment Letter on IASB Exposure Draft ED 9 Joint Arrangements**

**General**

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft ED 9 Joint Arrangements.
2. Generally, we support EFRAG in that the case for eliminating proportionate consolidation is not sufficiently justified. The justification for this ED is to reduce differences between IFRSs and US GAAP. We believe that this is not achieved given the limited exception within US GAAP in EITF 00-1 allowing proportionate consolidation, resulting in more than one single policy available in the construction and extractive industries. In our opinion that the ED does not contribute to and is not needed for short-term convergence.
  - 2.1 As proportionate consolidation is commonly used in practice in a number of European countries, we agree with EFRAG that the potential disruptions that the proposals can cause are not clearly compensated with better financial reporting by removing this method as an option for consolidation. Moreover, the ED does not demonstrate that the equity method is better than the proportionate consolidation method.
3. We are not convinced of the urgent need to have a revised standard on joint arrangements. Furthermore, we are of the opinion that the case is not clearly made how the revised Standard would comply with the Future Framework. The Framework discussions on the concept of control should not be preempted by issuing a revised standard at this stage.
4. Page 2 of the EFRAG Draft Comment letter suggests limiting the choice between the two methods and choosing the most appropriate method with disclosure of the reasons. We feel that this solution would be difficult to implement. If in practice the two methods are allowed, it may prove difficult to justify the choice between the two. In addition, we believe that entities are currently supposed to choose the method most appropriate to their specific circumstances and apply this method consistently under IAS 8.
  - 4.1 We fear that adding additional criteria makes the proposals more rule-based. In addition, there is the risk that the reasons are only provided in form of boilerplate wording.

5. We feel that this ED raises important questions and that there are strong arguments for revising IAS 31. However, we believe that it may be more appropriate to have this discussion as part of an IASB-FASB joint project and not in the form of a Short-Term Convergence project. In addition, undertaking such a joint project on this topic, would allow making the necessary links with other relevant topics and questions arising such as the definitions of “control”, liability and revenue.
6. In summary, we agree with EFRAG that it would be premature to amend IAS 31 as drafted in the proposed ED. A longer-term and separate joint project between FASB-IASB would be more appropriate to deal with this type of amendment. We recognise that the financial reporting information of joint ventures is not always comparable, particularly when different consolidation methods are adopted. For this reason, until completion of a potential FASB-IASB joint project, an interim solution would be to keep both methods as an option and to require additional disclosures in the notes of the financial statements showing what would have been the consequences should the alternative consolidation method been chosen. With these disclosures in place, we do not think it would be necessary to explain further why the method adopted has been chosen. We suggest to include this suggestion instead of the suggestion prepared by EFRAG. This would also mean that paragraph 15 of the EFRAG Draft Comment Letter needs to be redrafted.
7. In general, we are of the opinion that the EFRAG comment letter could benefit of being shorter. There is quite some overlap between the paragraphs and arguments making the letter unnecessarily long and complex to read. Accordingly, we suggest the draft letter be reviewed to determine where it could be shortened.

#### **Other comments**

8. It would be helpful if EFRAG provided evidence of who they are thinking of where it is mentioned that the option of proportional consolidation is “widely thought” to produce useful information. (Paragraph 3, Page 3).
9. Regarding paragraph 8 on page 4 of the EFRAG Draft Comment letter, we are not convinced of the logic followed by EFRAG to prove the justification of why one method is better than the other. EFRAG focuses more on the substance and economic reality argument and we are not convinced that this alone justifies a preference for the proportionate method. We suggest EFRAG to delete this paragraph as well as paragraph 6 as we feel that it does not offer a consistent argumentation. Also, we note that providing the benefits and disadvantages of each method may offer a more substantiated view.
10. We note that paragraph 23 (c) on page of 15 of the ED is the same as the exception to paragraph 10 of IAS 27. This results in duplication of the content of 23 (b) in paragraph 23 (c) on page 15 of the ED.

Our responses to the specific questions raised by EFRAG are set out in the appendix to this letter.

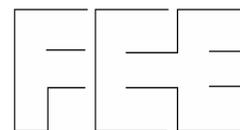
We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,



Jacques Potdevin  
President

Ref: ACC/JP/LF-SR



## APPENDIX

Responses to the Invitation to comment on ED 9 Joint Arrangements

### Question 1 – Definitions and terminology

***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 identifies three types of joint arrangement-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 for Conclusions).***

***Question 1: Do you agree with the proposal to change the way joint arrangements are described? If not, why?***

Question for Constituents

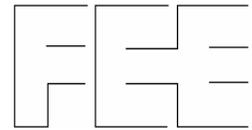
An important objective for the IASB in this project was to clarify the existing descriptions, which it believed to be causing problems in practice. Have they caused you problems in practice and are the revised descriptions better?

1. We agree with EFRAG that the existing descriptions do not appear to have caused problems in practice.
2. The three types of joint arrangements, now introduced, are not clearly defined. We wonder whether the description of each type is based on specific characteristics and principles or on forms and structures in practice. All types have some form of shared decision making, but may lead to different accounting treatment. However the link between the shared decision making process and the type of joint arrangement is not clearly explained.
3. As the explanations provided appear to be in place of clear definitions, there is no clear dividing line between the three types of joint arrangements that are explained. We think that there should be clearer definitions, at least for the three types of the joint arrangements presented.
4. In addition, it would be useful to clarify the underlying principles in the definitions provided. While there seems to be some kind of “implicit hierarchy” to help decide between the types of joint arrangements, it would be useful to define explicitly and with more clarity each type of joint arrangement.
5. We are also of the opinion that the examples do not clarify the distinction between the three types of joint arrangements. Could a joint business be a joint operation or can a joint business only be a joint venture? More explicitly, we are of the opinion that an example should demonstrate how the principles are to be applied and not the other way round in that the principles are to be derived from the examples.

### Questions 2 and 3 – Accounting for joint arrangements

***The exposure draft proposes:***

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



• **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. (See paragraphs 3–7 and 21–23 of the draft IFRS and paragraphs BC5–BC15 of the Basis for Conclusions.)**

**Question 2: Do you agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangement? If so, do you think that the proposals in the exposure draft are consistent with and meet this objective? If not, why? What would be more appropriate?**

6. We agree with EFRAG's remarks on the core principle of the ED. As a drafting remark, we suggest that EFRAG puts titles on top of each paragraph (2.1, 2.2 and 2.3) as this would help the readers understand better the main underlying point of the comments made.
7. Regarding the comments made by EFRAG in paragraph 2.4 on page 11 of the EFRAG Draft Comment letter on the possible need for further guidance, we agree with EFRAG and we think that it would be sensible to have additional guidance to help users with the understanding and application of the proposed standard.
8. In addition, we note that it is not clear how to deal with changes in percentage ownership with no changes in a given joint arrangement. It would be useful to have further guidance on how to account for these changes.

**Question 3: 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? If not, why?**

9. We refer to our comments in the covering letter and agree with EFRAG not to support the elimination of the proportionate consolidation option.

Question for Constituents

It has been suggested to us that some entities are already looking at different legal forms of joint arrangement which would allow them to recognise the arrangements as joint operations or assets in order not to lose their key performance measures as a result of ED 9's requirements. Do you believe that your company or other companies will seek different legal forms for their joint arrangements which will allow them to avoid having to use the equity method?

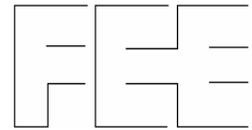
10. We have seen no indication of this so far. Moreover, we find answering this question difficult at this stage, when the boundary between the description of a Joint Venture and a Joint Operation is not clear. See our response to Question 1.

#### **Questions 4–6 – Disclosure**

**The exposure draft proposes:**

• **to require an entity to describe the nature of operations it conducts through joint arrangements (see paragraph 36 of the draft IFRS and paragraph BC22 of the Basis for Conclusions).**

• **to align the disclosures required for joint ventures with those required for associates in IAS 28 Investments in Associates (see paragraphs 39–41 of the draft IFRS and paragraph BC23 of the Basis for Conclusions).**



- **to require the disclosure of summarised financial information for each individually material joint venture and in total for all other joint ventures (see paragraph 39(b) of the draft IFRS and paragraph BC13 of the Basis for Conclusions).**

- **as consequential amendments to IAS 27 Consolidated and Separate Financial Statements and IAS 28, to require disclosure of a list and description of significant subsidiaries and associates. Those disclosure requirements were deleted in 2003 as part of the Improvements project. However, the Board understands from users that such disclosures are useful.**

- **as a consequential amendment to IAS 28, to require disclosure of current and non-current assets and current and non-current liabilities of an entity's associates. The proposed IFRS would require disclosure of current and noncurrent amounts, whereas IAS 28 currently requires disclosure of total assets and total liabilities.**

**Question 4: Do you agree with the disclosures proposed for this draft IFRS? If not, why? Are there any additional disclosures relating to joint arrangements that would be useful for users of financial statements?**

11. As already explained in our cover letter, our preferred view would be to have a long-term project dealing with this particular topic of Joint Ventures and retain the current available options. In view thereof and as a short-term solution, we believe that it would be useful to have additional information that would enable users to assess the impact of the alternative method that has not been adopted. In this respect, we would favour requiring additional disclosures in the notes of the financial statements. Therefore we would not be supportive of adapting the presentation of the income and balance sheet as detailed in paragraph 4.3 of the EFRAG Draft Comment Letter.
12. While we see the merits of the formats presented in Appendix 3 of the EFRAG Draft Comment Letter to help providing additional disclosures, we do not think there is need for an extra breakdown line by line of the balance sheet and income statement but just sufficient disclosure information in the notes to understand the implications of both methods. We would not be supportive of a further breakdown of the balance sheet and income statement as detailed in paragraph 4.4 of the EFRAG Draft Comment Letter but in favour of providing sufficient information in the notes to show the consequences should the alternative consolidation method been chosen.

**Question 5: 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? If not, why?**

13. We agree with EFRAG that this information would be useful.

**Question 6: 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? If not, why?**

14. We agree with EFRAG that this information would be useful. However, see also our response to Question 4.