



## Accounting Standards Board

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International Accounting Standard Board  
30 Cannon Street  
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7<sup>th</sup> January 2008

Dear Sir

### **Exposure Draft 9 – Joint Arrangements**

This letter sets out the views of the UK Accounting Standards Board (ASB) on the above exposure draft.

The ASB welcomes the IASB's decision to review IAS 31 'Interest in Joint Ventures'. The ASB agrees with the IASB that the two main issues that need to be addressed are the option in the existing standard which permits either the use of proportionate consolidation or the equity method of accounting; and that the form of an arrangement can determine the accounting treatment of a joint arrangement.

The ASB welcomes the IASB decision to restrict the accounting treatment of joint ventures to the use of equity accounting. The ASB does consider that this is only achievable with the disclosure improvements that are proposed in the exposure draft.

The ASB is in agreement with the IASB that the form of a joint arrangement should not be the determinant factor in deciding the accounting treatment for a joint arrangement. The ASB does, however, have a concern regarding the core principle as drafted in the exposure draft. The core principle focuses on contractual rights and obligations that arise from arrangements. The ASB is concerned that this may restrict the recognition of rights and obligations to only those that arise from contracts. The ASB is of the view that this was not the IASB's intention and that the core principle may need to be redrafted to focus on assets and liabilities that arise from a joint arrangement and how the arrangement is conducted in practice.

We have set out our response to the questions in the exposure draft in Appendix 1 and in Appendix 2 raise other minor matters.

Should you wish to discuss any of the matters raised in this response please do not hesitate to contact either myself or Michelle Crisp.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Mackintosh', written in a cursive style.

**Ian Mackintosh**  
Chairman, Accounting Standards Board  
DDL: 020 7492 2434

## Appendix 1: Response to IASB invitation to comment

### Question 1 - Definitions and terminology

*Do you agree with the proposals to change the way joint arrangements are described? If not, why?*

1. In general the ASB is in agreement with the proposed changes to the description of joint arrangements. The ASB does however wish to raise a matter in relation to the definition of a joint arrangement when combined with the core principle set out in the exposure draft.
2. A joint arrangement requires a contractual agreement; an economic activity undertaken together; and shared decision making. The ASB has a concern regarding the emphasis that is placed on the need for a contractual agreement to be in place. The ASB is of the view that it is important that the *relationship in practice*, between investor and investee, determines the accounting treatment rather than the accounting treatment being based solely on the contractual arrangement. It is noted in the basis for conclusions to the exposure draft that one of the IASB's main concerns is that the form of the arrangement determines the accounting in accordance with IAS 31 and the IASB wishes to address this matter. The ASB is concerned that placing such an emphasis on contractual arrangements may negate some of the actions the IASB has taken.
3. The definition of a joint arrangement and the core principle as set out in the exposure draft are interrelated. The definition of a joint arrangement defines a joint arrangement as a contractual arrangement and the core principle requires the recognition of contractual rights and obligations – presumably the recognition of rights and obligations that arise from the contractual arrangement. The ASB is concerned that this may inhibit the rights and obligations recognised to only those that arise from the contractual arrangements pertaining to the joint arrangement. The ASB considers that core principle may need to be redrafted to focus on assets and liabilities that arise from joint arrangements and how the relationship is conducted in practice.

**Question 2 and 3 – Accounting for joint arrangements**

*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?*

4. The ASB agrees that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangements. However, the ASB, as noted above, has a concern regarding the emphasis that is placed on contractual rights and obligations within the draft IFRS. The ASB notes for example that IAS 38 'Intangible Assets' provides that 'legal enforceability of a right is not a necessary condition of control'. As regards obligations IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' contains a definition of a constructive obligation that derives from an entity's actions and not necessarily from a contractual arrangement. As a consequence, the ASB is concerned the proposals in the exposure draft, although consistent with the core principle, may restrict the recognition of assets and liabilities to only those that arise from contractual arrangements.
5. The ASB also considers the IASB should clarify in paragraph 22 and the illustrative examples the meaning of "in accordance with applicable IFRSs". For instance in Example 2 of the exposure draft it is explained that each party recognises the rights that it controls – one interpretation of this is that an intangible asset is recognised, whereas an alternative interpretation is that a tangible asset should be recognised. The ASB therefore considers some clarification is required to explain the meaning of "in accordance with applicable IFRSs" and where appropriate the illustrative examples should stipulate the applicable IFRS.

*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?*

6. The ASB agrees to the elimination of proportionate consolidation where combined with the enhanced disclosure requirements as proposed in the exposure draft.

**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?*

7. The ASB agrees with of the disclosure proposals set out in the exposure draft, subject to one or two matters that require clarification and are set out in Appendix 2.

**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?*

8. The ASB is in agreement with the proposal to restore to IAS 27 and IAS 28 the requirements to disclose a list and description of significant subsidiaries and associates. The ASB notes that this disclosure is particularly helpful in relation to understanding minority interests in consolidated financial statements.

**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?*

9. The ASB agrees that it is more useful to users of financial statements if an entity discloses current and non-current assets rather than total assets and liabilities.

## **Appendix 2: Other minor matters arising from ED 9**

### **Objective and core principle**

1. The ASB notes that the draft IFRS contains a core principle rather than an objective, however the introduction to the ED (paragraph IN 1) does state an objective for the draft IFRS. The ASB is of the view that it would be useful if the IFRS itself stated first the objective, and then the core principle explained how this objective is to be achieved.

### **Definitions and terminology**

2. In addition to the matters raised in response to question one, the ASB also notes that:
  - the introduction to question one states that “the exposure draft proposes that the IFRS should be applied to arrangements in which decisions are shared by the parties to the arrangements”. In the draft IFRS itself, however, shared decision-making is not introduced until paragraph 7 of the draft IFRS.
  - paragraphs 3 to 7 of the draft IFRS discuss types of joint arrangements, however no specific reference is made to the definition of a joint arrangement.

### **Types of joint arrangements**

3. The ASB considers it might be helpful if paragraphs 3 to 7 are redrafted such that they focused on explaining the definition of a joint arrangement and how to apply the definitions in practice. In particular this might include providing a discussion about the nature of arrangements and particularly how these relate to an entity's own activities, for example whether the arrangement is an extension of the entity's own activities.
4. The ASB also notes that the definition of a joint arrangement requires an economic activity to be undertaken together. The ASB is not sure how this applies to joint arrangements that are joint assets where each party has rights and often ownership of the asset. In these circumstances it would not appear an activity is necessarily undertaken together but that there is a mutual sharing of resources.

5. The ASB notes that paragraphs 15 to 20 of the draft IFRS attempt to explain the nature of a joint venture but the paragraphs are not in a particularly logical order. The draft IFRS might benefit if these paragraphs are redrafted and presented in such a way that they provide guidance as to when a joint arrangement should be accounted for as a joint venture. This discussion might also discuss the substance of the relationship, and how the relationship is conducted in practice, in contrast to the strict legal terms of the arrangement. The relationship in practice may have evolved over time.
6. Paragraph 18 of the draft IFRS discusses a business – it is however difficult to understand the context and reason for this discussion. In addition, IFRS 3 contains a description of business and therefore the ASB questions whether the revised IAS 31 should provide an alternative description or interpretation of the guidance already contained in IFRS 3.

#### **Disclosures**

7. Paragraph 39(a) of the draft IFRS requires disclosures of a list and description in significant joint ventures, in contrast paragraph 39(b) refers to material joint ventures. The ASB has two concerns in relation to this:
  - (i) the distinction between material and significant; and
  - (ii) how to determine whether a joint venture is material. That is what the assessment of materiality should be based upon; proportion of net assets, gross assets, revenue or profit or loss.

#### **Effective date**

8. The ASB also note that some preparers, especially those in jurisdictions where International Financial Reporting Standards have been introduced more recently, may be aggrieved by the changes proposed. The proposals as set out in the exposure draft may require some preparers who have “switched” only recently to using proportionate consolidation in the last two years to “switch-back” to equity accounting. However, the ASB notes that although IAS 31 was part of the Improvements Project, the project did not fundamentally reconsider the accounting for interest in joint ventures contained in IAS 31.