



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

180 Lonsdale Street  
Melbourne VIC 3000  
GPO Box 78  
Melbourne VIC 3001 Australia

DX 111  
Tel: +61 (0) 3 9208 7000  
Fax: +61 (0) 3 9208 7001  
www.deloitte.com.au

Mr David Boymal  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

30 November 2007  
Our Ref: FB:DR

Dear David

**Exposure Draft ED 157 *Joint Arrangements***

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Exposure Draft ED 157 *Joint Arrangements* (ED 157), which incorporates the International Accounting Standards Board Exposure Draft ED 9 *Joint Arrangements* (referred to as 'ED 9' or 'the proposed Standard').

Our responses to the AASB's specific matters for comment in ED 157 are contained in Appendix A. Our responses to the questions raised by the IASB in ED 9 are contained in Appendix B.

Overall comment on the proposals

Whilst we support the IASB's US-GAAP convergence and improvement objectives in issuing ED 9, we have some significant concerns around the manner in which the IASB has sought to implement its objectives in this project.

The IASB has not clearly articulated its objectives and its rationale in developing a response to those objectives. It is difficult to distil the key principles that ED 9 seeks to apply. It is also unclear whether the IASB seeks to modify the basis of accounting for joint arrangements or merely eliminate the optionality currently found in IAS 31. Accordingly, the proposed requirements are difficult to comprehend and apply and may be subject to criticism. The proposals in ED 9 also cut across the IASB's conceptual framework project and many other projects of the IASB and a simple 'eliminate an option' approach may later be seen to be inconsistent with these other projects.

*The IASB has not adequately justified the elimination of proportionate consolidation*

Conducting activities through a joint venture represents a business model that is different from conducting activities through associates or subsidiaries. The proportionate

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consolidation approach also produces an outcome that differentiates joint venture activities from activities conducted through associates or subsidiaries.

Accordingly, the existing requirements of IAS 31 *Interests in Joint Ventures* are considered by many to be a pragmatic solution to the difficult question of accounting for joint venture activities on the basis that it provides useful and relevant information to the users of financial statements. The IASB appears to acknowledge this in its approach in ED 9, requiring the disclosure of information that is considered to be useful for users of the financial statements, including information that would result from the use of a proportionate consolidation accounting methodology.

A simplistic argument that proportionate consolidation is inconsistent with the *Framework*, without a true analysis of accounting for joint arrangements, leaves the IASB open to criticism, particularly when the IASB appears to have predominantly focussed on the balance sheet treatment of joint ventures, rather than also considering whether the equity method presents the most relevant and reliable outcomes in the income statement and cash flow statement. The *Framework* indicates that financial statements should provide a true representation of performance of the enterprise, i.e. its results and cash flows. We have some concerns whether this aspect of the *Framework* has been appropriately considered when proposing that the equity method be used to account for joint ventures.

The IASB has acknowledged in the basis for conclusions on ED 9 that the decision to eliminate proportionate consolidation was taken in isolation without considering whether equity accounting is an appropriate method of accounting for these arrangements. As a starting point, the IASB should justify why equity accounting is a better accounting approach than proportionate consolidation (or some other approach), because many of the reasons given for the elimination of proportionate consolidation could also be levelled at equity accounting.

#### *Accounting for joint operations and joint assets is unclear*

ED 9 proposes that interests in joint operations and joint assets be recognised “in accordance with applicable IFRSs”. However, the proposed Standard does not clarify:

- whether the ‘right of use’ or entitlement to ‘part’ of an asset should give rise to a tangible, intangible or other type of asset being recognised on the venturer’s balance sheet, i.e. it is difficult to determine which IFRS might be applied
- the unit of account that should be applied when determining which assets and liabilities to recognise, i.e. when part of an asset should be separately identified and accounted for under ED 9
- how the proposed requirements inter-relate with the concept of a ‘lease’ and when joint arrangements should be accounted for as a lease under IAS 17 instead of, or in conjunction with, the proposals in ED 9.

These questions are fundamental to developing a robust accounting framework for joint arrangements.

*The convergence objective has not been fully met*

ED 9 appears to seek the elimination of the option of using proportionate consolidation to account for joint arrangements subject to joint control, in order to converge with US-GAAP requirements.

We question whether the IASB's convergence objectives have been fully met for the following reasons:

- US-GAAP permits the use of proportionate consolidation in certain industries, including the construction and extractive industries where joint arrangements are commonplace. This has the effect of creating, rather than eliminating, accounting policy differences for those entities affected by this difference
- ED 9 proposes to retain the guidance for investments in joint ventures that are held for sale, requiring them to be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, whereas US-GAAP does not permit a 'held-for-sale' classification of investments in joint ventures accounted for using the equity method
- the disclosure requirements under the proposed Standard are not being fully converged with US-GAAP. There are a number of disclosure requirements proposed in ED 9 that are not included under US-GAAP and more importantly, a number of disclosure requirements under US-GAAP are not being proposed in ED 9
- US-GAAP contains some limited additional guidance on accounting by joint venture entities for assets contributed at formation, an area that has not been addressed in ED 9.

Our recommendations

We recommend that the AASB consider suggesting to the IASB that it not proceed with the proposals in ED 9 at this time and instead undertake a full project on accounting for joint arrangements, ideally in conjunction with the FASB.

A full IASB project on accounting for joint arrangements could encompass the following phases:

- firstly, determining the meaning of 'control' as it applies under IFRS, which will require a strong linkage with the IASB's consolidation project
- secondly, reflecting on the nature of 'joint control' and 'significant influence' in light of the decisions made on the meaning of 'control'
- finally, determining the accounting model for joint ventures that best presents the realities of conducting activities through these types of arrangements.

The full project would also need to have close linkages with other IASB projects, including:

- the leasing project, in relation to the nature of the assets and liabilities recognised by parties participating in joint assets and joint operations
- the conceptual framework project, due to the difficulty of reconciling the concepts of 'joint control' and 'significant influence' with the existing *Framework*.

Detailed comments on the proposals in ED 9 should the IASB decide to proceed with this project

In the event that the IASB decides to proceed with this project in its current form, we have provided responses to the questions raised in ED 9 in Appendix B. This appendix outlines all our comments and recommendations in relation to the IASB's proposals.

Some of the key matters we have raised in on the IASB's proposals are as follows:

- the drafting of the proposed Standard could be improved to clearly articulate the principles and how those principles are to be applied. There is a limited amount of guidance on applying key concepts and this results in difficulties in determining the scope and intended application of the proposed Standard
- the key definitions are unclear and suffer from a certain amount of circularity, e.g. it is unclear what 'shared decision making' means and how it is distinct from 'joint control'. We recommend that the definitions in the proposed Standard be revised to improve their understandability and clarity
- the substance over form approach adopted in the proposed Standard represents a significant shift in accounting for these types of arrangements. The accounting outcome is heavily dependent on the unit of account adopted when applying its requirements. Without additional clarification and guidance, we are concerned that this could lead to increased subjectivity and judgement in applying the final Standard
- additional principles and related guidance is required, dealing with various aspects of accounting for joint arrangements, such as changes in ownership interests or the contractual arrangements, transactions between parties to an arrangement, accounting by joint venture entities for contributed assets at formation, and so on
- due to the manner in which the proposed Standard is worded, the Draft Illustrative Examples are crucial to understanding the requirements of the proposed Standard. However, these examples include the illustration of accounting treatments that are not included as specific principles in the main body of the proposed Standard and the draft Basis for Conclusions does not explain the IASB's rationale for those treatments
- a number of the Draft Illustrative Examples illustrate accounting approaches for extractive activities. In many cases, the accounting approaches illustrated are not currently adopted by Australian entities when accounting for the matters covered by the examples. Without the proposed Standard providing clear guidance in this area, uncertainty is created as to whether the accounting methodology suggested should be applied under existing IFRS. The examples may also be seen to be 'second guessing' the outcomes of the IASB's extractive activities project. This is a significant issue in the Australian context due to the large number of entities that participate in the extractive industries
- the proposed Standard does not address the accounting to be adopted by all parties to a joint arrangement, i.e. those parties that do not participate in joint control or shared-decision making (depending on the nature of the arrangement). This has been a significant issue in the Australian context under AASB 131 and we suggest that guidance on this matter is included in the final Standard

- the disclosure requirements of the proposed Standard should be recast as 'principles' and 'guidance'. Many of the principal disclosures required would be better applied to all types of joint arrangements (rather than just joint ventures as is proposed). Some disclosure requirements are excessive and other useful disclosures are omitted.

Additional information in relation to the above matters, together with the other matters and recommendations that we have raised on the IASB's proposals, can be found in Appendix B.

The context of our Australian submission

Due to the later IASB submission deadline in relation to the ED 9, the global firm of Deloitte Touche Tohmatsu has not finalised its views in relation to the matters raised in the IASB's exposure draft. Furthermore, in this letter we have highlighted issues and concerns in the Australian context that may not have the same degree of relevance internationally or which may not be considered of sufficient significance to warrant separate comment by the global firm of Deloitte in its submission. Therefore, the views presented in this document in relation to IASB's ED 9 should be read in this context and may not necessarily represent the view of the global firm of Deloitte.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely



**Darryn Rundell**  
Partner  
Deloitte Touche Tohmatsu

## Appendix A – Response to specific matters for comment raised by the AASB

- (a) *any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*

(i) *not-for-profit entities;*

(ii) *public sector entities*

Whilst we are not aware of any specific not-for-profit or public-sector issues with the proposals, we recommend that the IASB conduct in depth study on the impacts of the proposals on these sectors once the IASB's final proposals become clearer.

This could be undertaken in an equivalent manner to the approach recently adopted by the AASB in relation to the revised AASB 3 *Business Combinations*.

- (b) *whether, overall, the proposals would result in financial reports that would be useful to users*

Our comments on this question are covered elsewhere in this letter.

- (c) *whether the proposals are in the best interests of the Australian economy*

Notwithstanding our reservations noted elsewhere in this letter, in the event that the IASB proceeds to issue an IFRS that is based on ED 9, we believe that it is in the best interests of the Australian economy to issue an equivalent Australian Accounting Standard to ensure full convergence with IFRS.

In order to ensure that the maximum benefits of the convergence process are obtained, there must be no change made by the AASB to the IASB IFRS when issuing an Australian Standard, other than any amendments applicable to not-for-profit and public-sector entities that are considered absolutely necessary in light of the review recommended above.

## Appendix B – Response to specific questions raised by the IASB

### 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 (paragraphs 3–6 and 8–20 and Appendix A of the draft IFRS and paragraphs BC16–BC18 of the Basis for Conclusions).*

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

Whilst we understand the IASB's rationale for changing the definitions and terminology related to joint arrangements, we believe that the terminology used in ED 9 could be improved and clarified.

The key definitions used in the proposed Standard are not clear and suffer from a certain amount of circularity, resulting in difficulties in determining the scope and applying the requirements of the proposed Standard.

The paragraphs that follow outline some of these difficulties and our recommendations to address them.

#### Some important terms are not defined

The proposed Standard does not include explicit definitions of "joint asset", "joint operation" and "joint venture", but merely alludes to these concepts by way of narrative description and example. Furthermore, it is unclear whether the narrative descriptions in paragraphs 8, 11 and 15 of the proposed Standard are intended to be formal definitions of these terms or merely guidance on the types of arrangements that might fall into each of these categories.

We recommend that formal definitions of "joint asset", "joint operation" and "joint venture" be incorporated into Appendix A of the proposed Standard.

#### Definition of "joint arrangement"

The definition of "joint arrangement" refers to a "contractual arrangement whereby two or more parties undertake an economic activity together and share decision-making relating to that activity".

The definition of "shared decisions" refers to "decisions that require the consent of all of the parties to a joint arrangement".

It is unclear whether the reference to the term "share decision-making" in the definition of a "joint arrangement" is intended to have the same meaning as "shared decisions". If the meaning is intended to be same, then it would appear that in order to meet the definition of a

joint arrangement, all parties to the contractual arrangement would need to consent to the decisions surrounding the joint arrangement.

This may create doubt about whether or not certain contractual arrangements meet the definition of “joint arrangements”, such as arrangements where decisions are made by contractual majority. For example, this may occur where several, but not all, parties to a joint arrangement together must agree to effect decisions, but one or more other parties, whilst being able to participate in the decision making process, are unable to change the outcome of any particular decision.

This issue is amplified in the particular case of joint ventures, where the additional definitions of “venturer” and “joint control” could be read to require the consent of all parties to the joint arrangement, rather than those considered ‘venturers’.

We do not believe that these outcomes are the intention of the IASB and we recommend that the definitions be amended to clarify this point. It would also be useful to include guidance or an illustrative example that clearly indicates how parties that meet the definition of a ‘venturer’ are determined.

#### The nature of “shared decision-making”

The proposed Standard only applies the concept of “joint control” to joint arrangements, or parts of joint arrangements, that meet the definition of a “joint venture”. “Joint operations” and “joint assets” rely solely on a concept of “shared-decision making”. However, the proposed Standard does not articulate how this concept is intended to operate.

As a result, it is unclear what types of decisions are intended to be within the ambit of the “shared decision-making” definition. Paragraph 7 of the proposed Standard provides some examples of what is commonly included in a contractual arrangement but do not appear to relate to sharing of decision making relating to the activities.

The proposed Standard therefore needs to clarify what “shared decision making relating to that activity” means, and to what extent the decisions that relate to the activity require the consent of the parties involved and how it is distinct from “joint control”.

We recommend that the proposed Standard include principles and guidance to assist in determining whether “shared-decision making” exists in a particular arrangement. The principles and guidance should be clearly articulated so that they are easily applied.

The following examples outline some of the difficulties that might be encountered in practice. Whilst we do not recommend developing detailed guidance on each point (which would risk creating a ‘rules based’ approach), we believe that the IASB should ensure that the principles and guidance developed allows constituents to answer these types of questions:

- whether shared decision making should encompass all decisions made in relation to the joint arrangement, or whether it is only intended to apply to specific types of decisions, e.g. operational requirements, cash flow forecasting, personnel appointments, location and composition of administrative and other functions, etc
- the type and nature of decisions (minor or otherwise) that do not need to be taken into account in assessing whether or not shared decision-making exists and how those



decisions are to be distinguished from decisions that are determinative in the assessment of whether or not shared decision-making exists

- how contractual arrangements creating the joint arrangement are to be taken into account in determining shared-decision making when those contractual arrangements appoint one of the parties to the arrangement (or an independent party) as the ‘operator’ of the joint arrangement
- whether the proposed Standard would capture a time share arrangement where decisions about the asset over which the time share arrangement exists requires consent from all time share holders in respect of certain specified decisions
- when, and if so how, ‘dead lock’ mechanisms should be taken into account in determining whether or not there is shared decision-making over a joint arrangement.

*Example illustrating some of the difficulties noted above*

Three unrelated parties (M, N and O) form an unincorporated joint arrangement over an oil and gas operation. Each party has an equal undivided interest in the assets and liabilities of the operation and has a right to a proportionate share of the oil and gas produced.

M is appointed as operator of the joint arrangement and is required to implement the annual operation plan that must be agreed by unanimous agreement between the parties. The annual operation plan is based on the life-of-field plan that is periodically updated and unanimously approved by the parties if there are significant changes in the reserves or cost profile of the operation, or otherwise every three years.

In the event that the parties cannot agree on the annual operation plan, an independent arbitrator is appointed under the terms of the arrangement and the most recent life-of-field plan must be implemented by M (as the operator) until such time as the dispute is resolved. In addition, under the joint agreement, M can unilaterally make decisions about personnel, systems, administrative matters and has authority to approve capital and operating expenditure up to certain agreed limits without seeking the approval of the other parties (N and O).

In applying the proposed Standard to this arrangement, it is unclear how the following are to be taken into account in assessing ‘shared decision-making’:

- M’s unilateral authority to make certain decisions
- which categories and types of decisions need to be considered.

Reference to “business”

The proposed Standard includes references to, and a definition of, a “business” in relation to joint ventures. However, it is unclear why the proposed Standard includes this reference and how it is intended to be considered in light of the requirements of the Standard.

For instance, paragraph 18 of the proposed Standard includes a reference to a ‘business’. It is unclear whether this is merely providing an example of a “joint venture” or whether it is implying that for an entity to have an interest in a joint venture, the joint venture must be a business.

This casts doubt on whether 'single asset' entities can qualify as a 'joint venture' if the activities conducted through the entity are not a 'business', e.g. an entity with an interest in a holding company that holds one investment property that is not a business, or a joint arrangement between parties to construct an asset where the construction activities may not meet the definition of a 'business' but the activities are administered through an incorporated entity that is owned by the parties to the arrangement.

Furthermore, paragraph 18 implies that a "business" that is subject to joint control must be classified as a joint venture unless circumstances indicate otherwise. Whilst this statement is qualified by the sentences that follow, we believe it effectively creates a 'rebuttable presumption' that a joint venture must involve the existence of a business and that a joint arrangement over a business would normally be classified as a joint venture.

The 'rebuttable presumption' in paragraph 18 combined with the substance over form approach of the proposed Standard could result in a number of 'unincorporated' joint arrangements being equity accounted even though the parties to the joint arrangement do not have an interest in a separate legal entity or arrangement.

For example, where a joint arrangement is a right to share a percentage of the profits of an asset, it is unclear how this arrangement should be accounted for in accordance with the equity accounting requirements proposed in ED 9. The near-final draft of the revised IFRS 3 *Business Combinations* makes a clear distinction between the purchase of an asset and the purchase of a business, but ED 9 does not deal with this issue in the context of a single asset that is subject to a joint venture arrangement. In particular, it is unclear whether the entire purchase price of the investment in the joint venture entity should be ascribed to the asset, or whether a bargain purchase would lead to the recognition of a gain, following the principles of IFRS 3.

We recommend that:

- the reference to "business" should be removed from the proposed Standard, including the deletion of the definition of "business" from Appendix A – if the reference is retained it should be by way of an example and not form part of any definition, principle or general guidance of the final IFRS
- the presumption that a business is a joint venture unless circumstances indicate otherwise be deleted from the proposed Standard
- the operation of the proposed Standard be clarified in relation to both incorporated and unincorporated joint arrangements whose activities do not meet the definition of a 'business'.

#### Definition of "joint control"

The definition of "joint control" in the proposed Standard refers to *"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"*.

The definition does not include a reference to "shared decisions". Accordingly, it is unclear whether an arrangement could be characterised as a joint venture on the basis of the *sharing* of the power to govern the financial and operating policies of a venture in situations where the parties to the arrangement are not all required to provide consent to decisions.

We recommend:

- the definition of “joint control” be amended to include a requirement for ‘shared decision-making’ (this may require the defined term to be “shared decision-making” rather than “shared decisions”)
- commentary or guidance be provided to illustrate how the concept of “joint control” is to be determined in practice.

## 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.*

**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?*

We have some concerns on the practical implications of taking this approach. The principles that are to be applied in meeting the objective are not clearly articulated in the proposed Standard and it is also unclear how the proposals in ED 9 interact with:

- various other projects of the IASB, as commented on generally throughout this letter
- the concept of ‘unit of account’, as commented on below
- closely-related Standards, particularly its interaction with IAS 27 and IAS 28.

Furthermore, in the event that the proposals in ED 9 are implemented:

- the main body of the final IFRS should clearly articulate the key principles that are to be applied in meeting the objectives of the Standard
- there is a need for requirements and guidance in many areas that are not addressed in the proposed Standard
- the Illustrative Examples need to be expanded and improved to address some of our concerns.

Further information on each of these concerns is outlined below.

## Unit of account

The substance over form approach may in some respects seem premature when considered in the light of the wider projects being undertaken by the IASB. This project is heavily dependent on the notion of 'unit of account' which is currently being debated by the IASB in its conceptual framework, insurance and other projects.

The *Framework for the Preparation and Presentation of Financial Statements* currently lacks guidance on how to account for 'parts' of assets or rights to particular aspects of assets. The proposed Standard in some cases effectively dictates that parts of assets and liabilities be used as the unit of account.

Other pronouncements, such as IFRIC 4 *Determining Whether an Arrangement contains a Lease*, allude to the issue of unit of account in relation to parts of assets, however they do not provide definitive guidance on how the unit of account is to be determined.

We are concerned that the mandatory recognition of parts of assets as the unit of account under the proposed Standard may be difficult to apply in practice and may also set precedents in other areas. For instance, draft Illustrative Example 3 provides an interest in one floor of a building as being a separately accounted for asset on the basis of the combined effect of the joint arrangement agreement and an associated lease arrangement.

The proposed Standard also does not clearly articulate the nature of assets and liabilities that are recognised on application of its requirements, instead referring the reader to "applicable IFRSs". Many IFRSs do not explicitly consider the recognition and measurement of a part of an asset or a shared obligation. Accordingly, the reader is left to determine how items should be treated. For instance, should an undivided interest in a tangible asset be considered a tangible asset in its own right, a right of access/use, a leased asset, some form of intangible asset or something else?

Without more explanation and guidance it is difficult to determine:

- the key principles that are to be applied in meeting the objective of recognising an entity's contractual rights and obligations
- when agreements and other factors should be considered together in order to delineate a part of an asset as the unit of account for the purposes of the proposed Standard
- on what bases the unit of account can be delineated, e.g. does it extend to undivided interests in assets, finance and operating leases, time share arrangements, rights of access for particular time periods, encumbrances and other rights over land, etc
- how to determine the nature of the assets and liabilities recognised – are assets tangible or intangible, some other form of right or obligation and so on.

The proposed Standard, Illustrative Examples and Basis for Conclusions do not state the principles that are to be applied, nor do they explicitly address the unit of account issue and how the IASB reached its conclusions on this issue.

We recommend that the AASB considers suggesting to the IASB that it:

- clearly articulate within the main body of the final IFRS the key principles that are to be applied in meeting the objectives of the Standard
- carefully explain its rationale around the concept of 'unit of account' in relation to joint arrangements within the scope of the proposed Standard
- provide additional guidance as to how the unit of account is to be determined, including when agreements are to be considered together in making the determination and what parts of assets can be separately accounted for under the proposed Standard
- include guidance in the proposed Standard on how the nature and classification of recognised assets and liabilities is to be determined.

#### Interaction with IAS 27 and IAS 28

The operation of the proposed Standard (like IAS 31 *Interests in Joint Ventures*) is closely related and heavily dependent on both IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Investments in Associates*. This issue is also closely linked to the consolidation project and the question of 'agent and principal', which are currently being considered by the IASB.

The operation of IAS 28 and IAS 31 are predominantly applied from a legal perspective when determining how entities should account for investments in other entities. The legal form tends to drive the accounting outcome, particularly in separate financial statements prepared following the requirements of paragraph 37 of IAS 27. As a result, it would be rare in the separate financial statements of an entity that the legal form of entities were 'looked through' such that individual assets and liabilities were brought onto the balance sheet of the investee.

The requirements of the proposed Standard produces a different outcome in relation to joint arrangements, whereby interests in legal entities can, as a result of the contractual and other arrangements around the interest, result in some (or all) of the individual assets and liabilities of the arrangement being recognised on the balance sheet of the investor in its separate financial statements. These assets and liabilities would then not be recognised in the separate financial statements of the investee.

The outcomes that result under the proposed Standard and IAS 27 and IAS 28 can therefore in some cases be considered inconsistent. For instance, an employee benefit share trust that is controlled by an entity would not generally result in 'collapsing' of the trust into the parent in the parent's separate financial statements, even though the substance of the arrangement (considering all the contractual arrangements between the company, its employees and the trust together) may suggest otherwise.

We recommend that the AASB suggest to the IASB that it consider this apparent inconsistency and provide additional commentary and guidance. Alternatively, the IASB could consider broadening its consolidation project to encompass accounting for arrangements over which the entity has joint control or significant influence.

## Areas where more guidance is required

### *Changes in ownership interests in joint ventures without losing joint control*

The proposed Standard does not provide sufficient guidance surrounding the accounting for changes in ownership interests in joint ventures.

There is one sentence included in paragraph 32 of the proposed Standard dealing with the treatment of amounts previously recognised in other comprehensive income where there has been a reduction in the ownership interest in a joint venture.

However, there is no guidance on the following matters:

- how any gain/loss arising from the partial disposal of an interest is to be measured, classified and presented in the financial statements
- how changes in ownership interests are to be accounted for, particularly as a change in ownership interest will increase and decrease each investor's entitlement to the contributed capital, reserves and retained earnings of the investee
- how changes in ownership interests that do not relate to a purchase or sale by the investor are to be accounted for, e.g. the introduction of a new party to the joint arrangement by way of that party contributing cash into the joint venture
- how the proposed Standard would be applied in light of the near-final drafts of the revised IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*, particularly:
  - the requirement to treat transactions between controlling and non-controlling interests as equity transactions – is this approach intended to apply to entities under joint control as well?
  - the accounting treatment to be applied where an investment in an entity previously accounted for under IAS 39 becomes a joint venture that is subsequently accounted for under the equity method in accordance with the proposed Standard – is the fair value of investment at the time joint control is obtained to be considered the 'cost' for initial application of the equity method and furthermore, should any gains and losses in an available-for-sale reserve in respect of the prior interest be recycled on gaining joint control?

Whilst we recognise that many of these issues also arise in relation to equity accounting for associates under IAS 28, we recommend that the AASB suggest to the IASB that it include requirements in relation to the above matters.

## *Transactions between parties to a joint venture*

We acknowledge that ED 9 proposes to withdraw SIC-13 *Jointly Controlled Entities- Non-Monetary Contributions by Venturers* and replace it with a general reference to the equity method adopted in IAS 28.

However, we believe that this approach is not sufficient for the following reasons:

- a joint venture is subject to joint control, whereas an associate is subject to significant influence. Transfers of assets between an investor and a joint venture results in a move between *control* and *joint control* over the transferred assets (or vice versa). In our view, the difference between control and joint control is more subtle than the difference between control and significant influence and therefore specific guidance around the types of transactions contemplated in SIC-13 is useful
- the rationale behind SIC-13 was developed by reference to the requirements of IAS 31 not IAS 28 and the requirements do not appear to have been expressly reconsidered by the IASB in developing ED 9.

## *Other matters*

The proposed Standard does not deal with accounting for the following:

- how to account for changes in the contractual arrangements
- changes in ownership interests under contractual arrangements, particularly in relation to joint assets
- the acquisition and disposal of interests in joint operations and joint assets
- accounting by the joint venture entity for contributions of assets at formation, i.e. should the joint venture recognise the contributed assets at fair value or on a 'carryover' basis? US-GAAP has some limited guidance in this area and we recommend that the AASB suggest to the IASB that it addresses this accounting as part of its convergence project.

The Draft Illustrative Examples provide limited guidance that touch on some of these areas, however we have concerns about the method of accounting *implied* by those examples (some of these concerns are outlined in the next section below). We would strongly prefer that clearly articulated principles be included in the proposed Standard on these matters.

However, appropriate exemptions and/or modifications for assets and liabilities related to extractive activities needs to be incorporated so as not to make scope exemptions in various Standards redundant, or to 'second guess' the outcomes of the IASB's extractive activities project.

## Concerns surrounding the Illustrative Examples

The Draft Illustrative Examples accompanying ED 9 contain a number of examples that are useful in understanding and applying its requirements, particularly in light of our earlier comments regarding the difficulty in applying the core concepts, definitions and terminology in the main body of the proposed Standard.

However, we have some concern about a number of examples in the Draft Illustrative Examples. This particularly relates to the extractive industries where past and current practice in the Australian context on some of the accounting policies illustrated tends to be

diverse. Whilst the clarification in the proposed Standard is in some regards welcome, we are concerned that many of the issues illustrated cut across the IASB's project on extractive activities and so believe a note of caution is warranted in the way that the examples are worded and presented.

In addition, and as noted earlier in this submission, some of the accounting approaches dealt with in the examples should be illustrating a principle of the proposed Standard. Ideally, the principles should be clearly stated and the basis for conclusions should outline the IASB's rationale for adopting those principles.

#### *Example 5 – Mining unitisation arrangement*

Example 5 illustrates a mining unitisation arrangement whereby entities which each have rights to extract minerals from adjacent areas enter into a contract to combine their operations into one combined area for the purpose of sharing costs. Each party retains legal ownership of the extractive rights for their respective areas and the participation percentages are adjusted on the basis of the findings of an independent study of reserves (sometimes called a 'redetermination').

In this instance, the joint arrangement is considered to involve joint assets, meaning that each party recognises its respective interest in the mineral rights, production equipment, minerals extracted, liabilities incurred, decommissioning liabilities and financing of the operations.

In the event that there is no redetermination process, the example states that whilst the arrangement involves joint assets, the initial setup of the unitisation arrangement is considered the exchange by each party of its interest in its original mineral rights for a percentage of the mineral rights in the combined area.

Under this view of unitisation arrangements, it would be expected that a sale transaction would be recognised, leading to the recognition of a gain or loss on the initial set up of the unitisation arrangement.

Our experience is that this approach is not always followed by Australian entities in relation to unitisation arrangements, particularly where they involve the exploration and evaluation or early development phases, where the fair values of the various assets involved in the unitisation can be difficult to determine.

The simplistic example also does not deal with the common situation whereby the unitisation arrangement undergoes a number of redeterminations before the final percentages in the overall field are locked in by way of a final determination. The implied guidance in this Illustrative Example could lead to the recognition of a gain or loss at the time of final redetermination, as this could be considered the sale of the underlying interest in exchange for a new interest in the combined field at that time.

#### *Example 6 – Oil and gas 'farm-in' arrangement*

Example 6 deals with a typical 'farm-in' arrangement whereby two parties each earn a 25% working interest in an exploration field by spending CU2 million. The arrangement is considered to involve joint assets with each entity recognising their interest in the exploration assets and operating costs, and any financing of the operations.

More importantly, the arrangement is also characterised as a cost-sharing and risk-sharing arrangement whereby the entity farming-out is selling an interest in exploration assets and



the entities farming-in are buying an interest in the exploration assets. Explicit guidance is provided that at the time of the agreement, the entity farming-out recognises a gain or loss on disposal of exploration assets in accordance with applicable IFRSs.

The issue of how to account for farm-ins and farm-outs under IFRS is an area of considerable conjecture. As a large number of these types of arrangements commonly arise during the exploration and evaluation phase of extractive activity operations, the predominant applicable standard is IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

In Australia, it is common practice to adopt a 'capitalisation approach' for exploration and evaluation expenditures. Under this approach, an asset is created in relation to each area of interest where activities in the 'area of interest' have not at reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves (in accordance with the 'Aus' paragraphs of the equivalent Australian Accounting Standard AASB 6).

Because of this 'capitalise if unsure' approach, the exploration and evaluation asset is viewed as a cost accumulation of all expenditure in relation to the area of interest. If the entity then farms-out an interest in the overall area of interest, the following approaches are commonly adopted:

- if cash is received as a result of the farm-out arrangement, the amounts received are used to reduce the asset as it can be seen as a 'recovery of cost'
- if cash is not received (such as a 'free carry' arrangement for a period of time or for an agreed amount), often no entries are made and the accumulated costs are carried forward as the cost of the entity's interest
- in some cases, the asset may be tested for impairment if the carrying amount of the asset is higher than the implied value of the farm-out arrangement, i.e. the arrangement is considered to trigger the modified impairment indicator approach dictated by IFRS 6 – although under a pure 'cost accumulation' approach this is not always followed so long as the other requirements of IFRS 6 are met, i.e. none of the modified indicators of impairment are triggered.

Similarly, the entity farming-in to the area of interest might also adopt a 'cost accumulation' approach and recognise an exploration and evaluation asset as the amounts are spent, rather than as an upfront purchase transaction with an associated liability. This approach is often justified by reference to the requirements of IFRS 6 and the optionality implied in the farm-in arrangement, i.e. most of these arrangements permit the entity farming-in to choose not to expend the full committed amount and thereby relinquish its interest in the tenement.

Many entities involved in the extractive industries strongly prefer a 'cost recovery/accumulation' approach rather than a 'sale and purchase' approach with farm-ins and farm-outs over exploration and evaluation interests. They argue that the asset is uncertain and that under the 'cost accumulation' approach it would be misleading to show a gain or loss as a result of a farm-out arrangement when the arrangement is in substance a means of sharing costs and spreading risk.

In light of the above, we recommend that the Illustrative Examples do not attempt to 'second guess' the outcome of the IASB extractive activities project by effectively suggesting a

particular form of accounting in the examples related to this industry. Whilst the examples are useful to understanding the concepts of the proposed Standard, if retained it would be useful to couch references to such accounting in terms of the approach being the entity's accounting policy choice.

Guidance on appropriate accounting should be extended to all parties to a joint arrangement

Unlike the existing IAS 31, the proposed Standard does not contain any guidance on how parties to joint arrangements that do not share in joint control (in the case of joint ventures) or shared-decision making (in the case of joint assets and joint operations) should account for their interests in the joint arrangement.

In our experience, this has been an area of significant difficulty under the existing IAS 31 and the equivalent Australian Standard AASB 131 *Interest in Joint Ventures*, notwithstanding the guidance in paragraph 51 of those Standards.

There is currently a lot of uncertainty as to how parties to jointly controlled operations and jointly controlled assets (as defined in IAS 31/AASB 131) that do not share in 'joint control' should account for their interest in those joint ventures. Because the existing IAS 31/AASB 131 have a stronger emphasis on the 'legal form' of joint venture arrangements, the wording of paragraph 51 is commonly only applied to joint ventures where the joint venture is operated through an incorporated joint venture and so each investor has a legal 'investment' in the form of shares or other ownership interest.

Accordingly, there is effectively no guidance on how non-jointly controlling parties to a jointly controlled operation or jointly controlled asset should account for their interests in the unincorporated joint venture. From our experience, some entities account for their interest as a financial asset, others as an intangible asset and others as an 'undivided interest' in the underlying assets. The accounting outcome often depends on the exact facts and circumstances surrounding the joint venture arrangement.

These issues are further complicated under the proposals in ED 9. Because ED 9 focuses on the contractual terms around the joint arrangement rather than the legal form, the issue of how parties that do not participate in joint control or shared-decision making (depending on the nature of the joint arrangement) should account for their interests takes on additional importance, particularly when one joint arrangement can be split into 'parts' and each part can be accounted for differently.

For example, in the case of a joint asset, it is unclear to us in conceptual terms how parties that have joint ownership over that asset can potentially have different accounting outcomes depending on whether or not they participate in shared-decision making. The absence of shared-decision making by a particular party may be due to a contractual majority requirement for decisions whereby the party is fully entitled to vote, but cannot influence the outcome of any vote due to a relatively small interest in the joint arrangement.

A party to such an arrangement that does not participate in shared-decision making will nevertheless meet many of the factors outlined in paragraphs 11 to 14 of ED 9, including some or all of the factors included in paragraph 13. Generally, the party will have legal and beneficial ownership of the proportion of the assets to which it is entitled, and commonly the part of the asset will be recognised for taxation purposes as well.

It seems reasonable to us that such a party should follow the basis of accounting outlined in paragraph 22 of the proposed Standard, notwithstanding that the party does not participate in shared-decision making. Similar arguments can be mounted in respect of joint operations.

*Example*

Three unrelated parties (A, B, C) form an unincorporated joint arrangement over a mining operation. A and B each have a 40% interest and C has a 20% interest in the joint arrangement. The parties have entered into a contractual agreement that provides that decisions require a 75% majority to have effect.

None of the entities has the ability to unilaterally control the joint arrangement. However, A and B *together* can pass a decision and therefore share decision making and so would account for their interests as a 'joint asset' under the requirements of ED 9.

Whilst C can participate in the decision making process, it is unable to change the outcome of any particular decision, but can effectively deal with its interest in each asset and liability of the joint arrangement as it sees fit, i.e. sell the interest, use it as collateral for a loan, etc.

Whilst the proposed Standard would appear to apply to A and B's accounting for their respective interests in the joint asset, it is unclear whether C's accounting for its interest can follow a similar accounting policy so that C recognises its share of the assets and liabilities of the joint arrangement.

Similar issues arise in relation to parties to *unincorporated* joint ventures that do not share in joint control and to joint arrangements that are bifurcated into various types of joint arrangements.

This issue is also closely aligned with our comments above on the 'unit of account'.

We recommend that the AASB suggest to the IASB that it:

- consider extending the scope of the accounting requirements related to joint assets and joint operations to all parties to those joint arrangements, regardless of whether or not those parties participate in shared-decision making
- provide guidance on how parties to joint ventures that do not share in control should account for their interests, specifically in relation to unincorporated joint ventures where the party does not hold a legal ownership interest.

***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?***

We appreciate that the proposals in ED 9 are consistent with the IASB's desire to eliminate accounting policy options that are currently available under IFRS. We also acknowledge that the AASB previously eliminated the proportionate consolidation option from the original version of AASB 131 for similar reasons.

However, as discussed in our covering letter, we are concerned that the IASB has not sufficiently considered and developed its rationale for the proposal to eliminate proportionate consolidation.

At a global level, the existing requirements of IAS 31 *Interests in Joint Ventures* are considered by many to be a pragmatic solution to the difficult question of accounting for interests in entities where the investor is not a passive insignificant investor, but is also neither a controlling shareholder.

A simplistic argument that proportionate consolidation is inconsistent with the *Framework*, without a true and thorough analysis of accounting for joint arrangements, in our view, leaves the IASB open to criticism that it has proposed a solution only for the sake of US-GAAP convergence. Indeed, because US-GAAP itself permits the use of proportionate consolidation in some circumstances, the proposals in ED 9 may even be defective in achieving this objective, effectively creating GAAP-to-GAAP differences that did not previously exist.

The IASB has not explained why equity accounting is a better approach

The IASB has indicated that it has not reconsidered the appropriateness of the equity method in developing its proposals in ED 9<sup>1</sup>. Instead, the IASB has focussed on the "fundamental inconsistency with the *Framework*" that proportionate consolidation is considered to represent<sup>2</sup>.

Equity accounting is considered by many to effectively be a 'one-line consolidation'<sup>3</sup>. Accordingly, this same criticism could be levelled at the use of the equity method as it in substance largely adopts a proportionate consolidation approach, but presents the outcome as a single amount in the balance sheet and income statement. In doing so, the equity method effectively conceals the detail that proportionate consolidation provides and necessitates the disclosure of detailed financial information used to perform equity accounting so that users are provided with useful and relevant information.

For this reason, we have some sympathy for the proponents of proportionate consolidation that argue that this method is a practical way in which to present a venturer's interest in a joint venture<sup>4</sup>. Proportionate consolidation does produce financial statements that present a complete picture of an entity's operations, without regard to the legal form through which those operations are conducted. However, because both proportionate consolidation and the equity method are difficult to support by reference to the current *Framework*, we question

<sup>1</sup> Draft Basis for Conclusions, paragraph BC14.

<sup>2</sup> *ibid*, paragraph BC12.

<sup>3</sup> This is alluded to in IAS 27 *Consolidated and Separate Financial Statements*, paragraph 20.

<sup>4</sup> Basis for Conclusions, paragraph BC12.

whether arbitrary elimination of proportionate consolidation without a complete analysis of this issue is appropriate.

We also note that the IASB's proposals in ED 9 in accounting for 'joint assets' could in some respects also be considered to be contradictory to the position taken in relation to proportionate consolidation. The predominant reason for the IASB's rejection of proportionate consolidation as inconsistent with the *Framework* is that it presents assets that the entity does not control on the entity's balance sheet.

Again, the same criticism could be levied at the inclusion of a proportionate share or component of an asset on an entity's balance sheet as the asset *as a whole* is not under the control of the investor. This issue is obviously closely linked to our earlier observations regarding the appropriate determination of the unit of account when accounting for these types of arrangement. However, from a commercial perspective, it can be difficult to argue that the proposed accounting for joint assets is materially different from proportionate consolidation, except based on a theoretical argument that relies on the *Framework*, which is itself outdated and excludes contemplation of such arrangements.

#### The IASB has not considered other options

By eliminating one existing option under IFRS without a thorough analysis of the issue, the IASB has not considered other alternative accounting treatments that might be adopted in respect of joint ventures.

We set out below some observations on other possible approaches that might be adopted, although we are not proposing that the methods of accounting illustrated are necessarily appropriate for joint ventures. However, it does serve to illustrate that the IASB's analysis of this issue has been at best superficial.

#### *Fair value methodology*

The IASB has determined that it is appropriate to adopt a fair value measurement basis for investments in entities where the investor lacks control, joint control or significant influence. This approach effectively includes the investee's intangibles, goodwill and other assets on the balance sheet of the investor, revalued to fair value on an ongoing basis.

By contrast, even though an entity does not control a joint venture, it is required to apply consolidation techniques to some extent in accounting for its interest in the joint venture regardless of whether the proportionate consolidation or the equity method is used. These approaches rely on consolidation concepts which, combined with the requirements of other IFRSs, effectively prohibit the use of the fair value method to measure the investment in the entity.

We consider that it is conceptually difficult to reconcile these different accounting approaches between investments where the investor has joint control and investments where the investor lacks such joint control. We recommend that the AASB suggest to the IASB that it consider why equity accounting is a superior method to the use of fair value for such investments.

## *Separate presentation*

A further alternative could be to expand the IASB's existing projects on the reporting entity and financial statement presentation to address the issue of accounting for joint ventures in more detail. The option of 'another form' of financial statement, or section of the financial statements being developed, that separately presents the effects of joint ventures (and associates) could be explored.

## The differences between equity accounting and proportionate consolidation have not been fully explored

Because the IASB's approach to developing the proposals in ED 9 has been to focus on proportionate consolidation, the IASB has not fully explored the differences between the equity method and proportionate consolidation. We would recommend that the IASB consider these differences to determine which approach is conceptually superior. If the IASB decided to proceed with the proposal to eliminate proportionate consolidation, it must also ensure that the outcomes under the mandatory application of the equity method produce an outcome that is superior to allowing entities to choose between the equity method and proportionate consolidation.

Differences between proportionate consolidation and the equity method that should be considered include:

- it is possible for an entity to capitalise borrowing costs into the cost of assets that are proportionately consolidated, whereas under the equity method it is generally held that capitalisation of borrowing costs into the cost of the investment is prohibited
- the suspension of the equity method when the equity accounted carrying amount of the investment is reduced to zero, whereas these losses would be included in consolidated profit or loss under proportionate consolidation
- the inclusion of long-term interests that in substance form part of the investor's net investment in the associate in the equity accounted carrying amount of the investment, which might otherwise be eliminated if proportionate consolidation were adopted
- the current and deferred taxes associated with the investee's assets, liabilities, transactions and events are included 'above the line' under the equity method rather than being aggregated with the overall income tax expense as is the case with proportionate consolidation
- the elimination of transactions between the investor and investee are often limited to unrealised profits only in the case of the equity method, whereas under proportionate consolidation, all transactions are eliminated.

## Questions 4–6 – Disclosure

*The exposure draft proposes:*

- *to require an entity to describe the nature of operations it conducts through joint arrangements (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 (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 (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 non-current 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?*

The disclosure requirements need to be reassessed

We believe that the disclosure requirements of the proposed Standard could be streamlined and improved. In addition, the rationale for including the disclosures required by the proposed Standard needs to be clearly articulated. The disclosures required should be informative and useful without being overly burdensome. It is important that the final IFRS illustrates the reasons why the disclosures are relevant and useful to the needs of the users of financial statements.

We suggest that the disclosure section of the proposed Standard be recast, clearly setting out the core disclosure objectives and summaries of disclosures that meet those core objectives, in a similar way to the approach taken in Standards such as IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations*. Many of the existing proposals are more in the nature of guidance rather than an articulation of core objectives and principles.

Detailed comments on the existing proposals in ED 9 in the event the IASB proceeds with this project

As noted above, we recommend that the IASB recast the disclosure requirements, clearly setting out the core disclosure objectives and summaries of disclosures that meet those core objectives.

However, in the event that the IASB decides to proceed with the existing approach to disclosure, we have the following suggestions for improvement:

- paragraph 36 could form the basis of a key disclosure principle of the proposed Standard, but it should be reworded to better explain the core objective of the disclosures required – we would consider the first sentence of paragraph 39 could also form part of this objective
- the nature of the entity's interests in all forms of joint arrangements should be required to be disclosed. The disclosures required could include such items as:
  - the names and principal activities of significant joint arrangements (joint operations, joint assets, joint ventures)
  - the entity's amount and nature of interest in each significant joint arrangement, including ownership interest percentage, entitlements to profits/revenues/output, agreements that are increasing or decreasing ownership interests, restrictions on transfer, and so on
  - significant changes in joint arrangements that have occurred during the financial period
  - a summary of the nature of joint arrangement contractual arrangements
- the financial impact of joint arrangements on the financial statements should also be disclosed. Disclosures required could include:
  - aggregate totals of assets and liabilities that are directly involved in joint operations and joint assets (separately disclosed for each type of arrangement)
  - significant restrictions on the ability of the entity to transfer or otherwise deal with assets and liabilities
  - significant capital commitments and contingent liabilities
  - for joint ventures:
    - the aggregate equity accounted carrying amount of each significant joint venture
    - summarised financial information of the entity's joint ventures in aggregate, including total assets, total liabilities, total revenues, discontinued operations, profit or loss and total comprehensive income
    - the aggregate amounts of the components of equity (reserves, retained earnings, etc) that relate to joint ventures

To the extent relevant, these disclosures could also be duplicated in IAS 27 and IAS 28.



## *Disclosure proposals that we do not support*

In addition to our general comments above, we do not agree with the following disclosure requirements that are proposed in ED 9:

- the requirement to disclose information for each individually material joint venture. We believe that this is onerous and will provide little benefit to the users of financial statements, particularly for large corporate entities participating in the extractive and real estate industries where there may be many such ventures. We also note that the consequential amendments to IAS 28 are inconsistent with these proposals as the disclosures under a revised IAS 28 would not require information for each individually material investment over which an entity has significant influence. We would prefer that the proposed Standard mirror the requirements proposed for IAS 28
- the requirement to disclose the current and non-current amounts of joint ventures (as noted in our response to question 6 below).

## *Convergence with US-GAAP has not been fully achieved*

We note that the proposed disclosure requirements are not fully consistent with the equivalent US-GAAP requirements in APB Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock* (APB 18). Specifically:

- the proposed requirements in paragraphs 37, 38, 39(c), 39(d), 39(e), 40 and 41 of ED 9 are not required under APB 18 – we recommend that these proposed disclosure requirements be reassessed on a cost-benefit basis for inclusion in any final Standard resulting from ED 9
- APB 18 has the following additional disclosure requirements that are not present in ED 9 – in the event that the IASB does not undertake a full joint convergence project with the FASB on joint arrangements, we recommend that, at a minimum, these additional disclosures be considered (as relevant) for inclusion in the final Standard resulting from ED 9:
  - paragraph 20(a), requiring information about the difference between the amount at which an investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference
  - paragraph 20(b), requiring disclosure of the market value of an investment based on the quoted market price (where available)
  - paragraph 20(e), requiring disclosure of the material effects of possible conversions of convertible securities, exercises of outstanding options and warrants or other contingent issuances.

***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?***

We agree with this proposal.

***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?***

As noted in our responses to the questions above, the IASB has not clearly articulated its rationale as to why this disclosure is required. Accordingly, it is difficult to opine as to whether the information is useful to the users of the financial statements when the only available reference is to historical practice.

In essence, the need for so much proposed disclosure in the proposed Standard is a reflection of the fact that the accounting methodology proposed is not necessarily an optimal solution. Ideally, the accounting methodology adopted should of itself convey much of the information that users require, with additional footnote disclosure being limited to that which is absolutely necessary and which users find useful.