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Australian Accounting Standards Board
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By email: standard@asb.com.au

30 November 2007

Dear David

Exposure Draft 157: Joint Arrangements

Grant Thornton Association Inc (“Grant Thornton Australia”) is pleased to comment on the Australian Accounting Standard Board's (AASB's) Exposure Draft 157 Joint Arrangements. Our response reflects our position as business advisers both to listed companies and privately held businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 11 January 2008 deadline, and discussions with key constituents.

Grant Thornton Australia supports in principle the proposed new Accounting Standard, on the basis that it has a short term convergence objective of reducing differences between International Financial Reporting Standards (IFRSs) and the US Generally Accepted Accounting Principles (GAAP).

However, we believe that further consideration needs to be given to a number of the Proposals:

- a) this proposed Standard will not lead to complete US GAAP convergence given that US GAAP still allows proportionate consolidation for some industries;
- b) the proposals will lead to an increased use of equity accounting which in our view does not faithfully record the nature of such Joint Arrangements; and
- c) the distinctions between the various terms: Joint Arrangements, Joint Operations and Joint Ventures is not as clear as it needs to be.

Our detailed comments follow:

Question 1 – Definitions and terminology

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

No, we believe that greater clarity is required. For instance an interest in a joint asset such as a mine does not necessarily extend to an interest in the plant and equipment used in that mine or the cash held by the manager of the mine. The current drafting presumes there is a single joint asset that is the subject of the joint arrangement

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The interest in the mine might be an interest in a joint asset but the current drafting at paragraph 22 does not address the interest in the plant and cash held by the manager of the mine.

A further issue concerns the non-monetary contributions made in a joint arrangement that establishes a joint asset such as a gold mine, for example, the contribution of mining tenements. Accounting for contributions by a party to a joint arrangement categorised as a joint asset is ignored by the ED, whereas accounting for transactions between a venturer and a joint venturer from the contribution of assets is covered by the ED (para 27).

Questions 2-3 Accounting for joint arrangements

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?

Yes – We agree that a party to a joint arrangement should recognise its contractual rights and obligations relating to the arrangement, and as such agree that the proposals are consistent with and meet this objective

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?

Yes – We agree that proportionate consolidation should be eliminated based on the terms set out in the question. However, the current drafting of the ED does not make it clear 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? Returning to the point made above regarding paragraph 22, accounting for the interest in the joint asset only requires recognition of the share of the joint asset not a share of any other assets used in the joint arrangement.

Questions 4-6 Disclosures

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?

Yes – Much of the information proposed in the ED was originally included in the Australian version of IAS 31 as additional disclosures when the standard was first released here in July 2004. This was on the basis that it provided useful information to assist shareholders in understanding an entity's involvement in these types of ventures.

However, we are concerned that the use of the general terms “description of the nature and extent” and “a list and description” in paragraphs 36 and 39 (a) of ED 9 do not provide sufficient clarity in relation to the types of disclosures that are most appropriate. We would therefore encourage the AASB to recommend to the IASB that these general terms be replaced

with the more specific requirements in paragraphs Aus57.1(a), (b) and (c) and Aus 57.3 (a) (i), (ii), (iii), (iv) respectively of the July 2004 version of AASB 131.

We also suggest that further thought is required into the legal form of the interest in assets in the joint asset category. Paragraph 11 states that often a joint asset is subject to joint ownership but this is incorrect if the meaning of joint ownership is taken from property law. There is also a need to consider the legal form of the undivided interest in a joint asset in a lot more detail.

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?

Yes – They provide useful information about the nature of operations and exposures and are currently included in the Australian standard as additional disclosures on the basis that they provided useful information to assist shareholders in the understanding of an entity's involvement in these types of ventures.

We would encourage the AASB to recommend that the IASB wording be more along the lines of what was initially included in AASB's 127 and 128 when they were initially introduced in 2005.

Instead of the IASB's general wording requiring "a list and description" in paragraph 37(AA) the more detailed wording contained in paragraphs Aus 42.1 of AASB 127 and paragraph Aus 37.1 of AASB 128 of the July 2004 versions of these standards could be introduced for greater clarity and consistency.

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?

Yes – More information about the liquidity of these investments would be helpful to users in their understanding of the entity's involvement in these arrangements and cash flow is often a significant issue.

Additional AASB comments

The AASB would value comments on:

- (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:
- not-for-profit entities; and
 - public sector entities.

We are not aware of any issues affecting these entities.

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

Yes – Improving the definitions and terminology associated with joint ventures to base them on rights and obligations rather than legal form will significantly improve the quality and

consistency for the accounting for these types of arrangements in line with the accounting framework.

Australia eliminated proportional consolidation as an accounting choice when IFRS was adopted in 2005 and therefore encouraging the international community to adopt the same approach will benefit international comparability.

If you require any further information or explanations, please contact me.

Yours sincerely
GRANT THORNTON ASSOCIATION INC



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