Telstra

27 November 2007

The Chairman
Australian Accounting Standards Board
Level 7, 600 Bourke St
Melbourne VIC 3000

Dear Sir/Madam

AASB ED 157 : Joint Arrangements

General Comments

We are pleased to respond to your invitation to comment on the above exposure draft, published in October 2007.

We agree with the proposed amendments to reduce the differences between IFRS and US GAAP - specifically what constitutes a joint arrangement and the methods of accounting for those arrangements. We note that ED 157 eliminates the choice of proportional consolidation or equity method accounting but provides specific rules on the accounting treatment depending on the type of joint arrangement in place to more realistically reflect the nature of the joint arrangement in the financial reports of the parties involved. Additionally, we agree with the proposed changes to the disclosure requirements which bring the disclosures in line with those required by associates under AASB 128.

In this regard, we support the aim of the exposure draft to increase the scope of joint arrangements and to clarify the accounting treatment to more appropriately reflect the nature of the joint arrangements. We also support the new disclosures suggested.

Our comments to the specific questions outlined in the exposure draft are attached.

IASB Invitation to Comment

Question 1 – Changes to the description of joint arrangements

We support the proposal in the exposure draft to change the way in which joint arrangements are described. The exposure draft breaks down "interests in joint ventures" into the three main categories of joint arrangements that exist and provides specific accounting treatments depending on the type of arrangement in place.

Joint operations are such that the parties to the operation use their own assets and other resources to operate the joint arrangement. The contractual arrangement specifies the basis on which the parties are entitled to the revenue generated from the arrangement.

Joint assets are where the parties have rights to joint assets and commonly joint ownership from which each party takes a share of the output from the asset and bears an agreed share of the costs.

Joint venture will solely relate to a joint arrangement that is controlled by the joint parties but the parties do not have rights to the assets or obligations for the expenses as the joint venture would usually have control over its assets, incurs liabilities and expenses and earns revenue. It can also if required enter into contracts under it own name and raise financing.

This guidance provides a broader definition for joint arrangements and the accounting method is dependent on the type of joint arrangement in place. Previously, there was an argument that it is inappropriate to combine controlled items with jointly controlled items but changing the definition of a joint venture to a joint arrangement, and providing specific definitions for each type of joint arrangement, satisfies this concern by ensuring each arrangement is defined and accounted for on its contractual basis.

Question 2 – Recognition of contractual rights and obligations by a party to a joint arrangement

The exposure draft proposes that joint arrangements recognise the contractual rights and obligations relating to the arrangement, specifically:

- Joint operations – recognition of the assets it controls and the liabilities it incurs; the expense it incurs; and its share of the revenue and expenses from the sale of goods or services by the joint arrangement.
- Joint assets – recognition of its share of the joint assets; any liabilities it incurs; its share of any liabilities incurred jointly with the other parties of the joint arrangement; any revenue from the sale or use of its share of the output of the joint asset; and any expenses it incurs in respect of its interest in the joint arrangement.
- Joint ventures – recognition through the equity method.

We agree that the proposal for a party to a joint arrangement should recognise its contractual rights and obligations as this provides a more realistic reflection of the joint arrangement in the financial reports of the parties involved. It applies specific accounting treatments to each type of arrangement to reflect the nature of the contractual arrangement. Additionally, it provides a single accounting treatment for each type of arrangement which provides consistency to the users of the financial reports.

We also agree that the suggested recognition rules for the different types of joint arrangement meet with and are consistent with this objective.

Question 3 – Elimination of proportional consolidation for joint ventures

Historically, there has been a question over the suitability of proportionately accounting joint ventures where the venturers have significant influence on operations rather than joint control. AASB 131 recognised this issue but still recommended proportional consolidation on the basis that it "better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity" i.e. control over the venturer's share of the future economic benefits.

Changing the definition of a joint arrangement to include joint operations, joint assets and joint ventures allows both concerns to be addressed. Joint ventures will be accounted for using the equity method and joint operations will be accounted for by recognising each party's contractual rights and obligations.

Therefore, we agree with the proposal to eliminate proportional consolidation.

Question 4 – Disclosure requirements

The disclosure requirements set out in the exposure draft with respect to joint operations and joint assets have been simplified so that financial information with regards to these entities is not longer required to be reported. We agree with this proposed change on the basis that the party's share of assets, obligations, revenue and expenses has been recognised in their financial report and must be disclosed with respect to the relevant accounting standards.

The recommended disclosure of joint ventures, with the exception of the proposed requirement to disclose current and non-current assets and liabilities, is in line with the disclosure required for associates under AASB 128. As a joint venture, as defined by this exposure draft, is comparable to an associate the changes to the disclosure requirements would be appropriate.

Therefore, we agree with the proposed disclosures and do not think that any additional disclosures are required.

Question 5 – Restore to IAS27 and IAS 28 the requirement to disclose a list and description of significant subsidiaries and associates

We agree that disclosure of a list and description of significant subsidiaries and associates, as previously required by AASB128, is a useful inclusion in the financial report. Although AASB128 has recently been amended (for reporting periods beginning on or after 1 July 07) to exclude this disclosure we believe it provides useful information to the users and should be included in the financial report.

Question 6 – Disclosure of current and non-current assets and liabilities of associates

We agree that it may be more useful to users if an entity discloses both current and non-current assets and liabilities instead of total assets and liabilities in some cases but the key aim should be to align the disclosure requirements for both Joint Venture and Associate entities.

AASB Specific Matters for Comment

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

No issues noted.

b) Whether, overall, the proposals would result in financial reports that would be useful to users

The proposed exposure draft clarifies the definition of a joint arrangement and introduces the definitions for joint operations, joint assets and joint ventures dependent on the party's contractual rights and obligations. For each type of joint arrangement, it provides specific guidance on recognition and disclosure. The disclosures required for joint ventures have also been expanded to provide similar information to that provided on associates, thereby providing relevant, comparable information to the users of financial reports.

Hence, we believe that the proposals work towards the provision of financial reports that would be useful to users.

c) Whether the proposals are in the best interests of the Australian economy

We support harmonisation with international accounting standards in order to achieve more comparable and transparent financial reporting on a global basis. The purpose of the proposed standard is to redefine joint arrangements so that the recognition of joint arrangements reflects the nature of the contractual rights and obligation of the arrangement, and to amend the disclosure requirements to provide information that will be useful to the users of the financial reports.

Please contact me on +61(3) 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely,

David Anderson
Director Corporate Accounting and Planning