



3 December 2007

Professor David Boymal  
The Chairman  
Australian Accounting Standards Board  
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Dear David

**AASB ED 157 Joint arrangements**

The Institute of Chartered Accountants in Australia (Institute) welcomes the opportunity to make a submission on ED 157 Joint arrangements.

Accounting for joint ventures is an important issue for Australian reporting entities. While we support the IASB/ FASB convergence project in general, we are concerned these proposals will not necessarily improve the quality of joint venture reporting in the short term.

Rather than engage in a "quick fix", which a number of our members advise us will not actually achieve complete US GAAP convergence, we would prefer that the IASB invest resources in providing a major overhaul of the joint venture standard. Not only should this address the "substance over legal form" issues considered in this ED, which we agree is essential, but also the wider issues of how to account for and report these types of investments in a way that provides meaningful information to users consistent with the accounting framework.

While equity accounting is widely adopted around the world for these types of entities, as a method it is not without its theoretical flaws and does not provide investors and other users with the information they require understanding these increasingly complex arrangements.

We are supportive of the additional disclosures proposed in this ED and recommend that these should be adopted as they will go some way to improving the deficiencies of reporting for these types of entities in the short term.

Our detailed comments are included in the attachment. If you require any further information please contact Kerry Hicks, Head of Reporting, on (02)9290 5703.

Yours sincerely

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**Question 1 – Definitions and terminology**

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

While we consider that the revised definitions will more effectively deal with the range of arrangements that currently exist in practice, a number of our constituent members have advised that the level of detail therein is insufficient to enable them to be effectively applied in practice.

Given the concerns we expressed in our covering letter about the limited scope of this project we do not consider that the definitions should be changed until a more wide ranging project on accounting for joint ventures has been undertaken.

**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 recognising contractual rights and obligations and thereby reflecting substance over form is consistent with the accounting framework and more accurately reflects the realities behind the range of these transactions.

We agree that the proposals are consistent with and meet this objective but are concerned that there is insufficient guidance in the details of these new proposals to significantly improve the application of this standard to the range of and nature of the entities affected by these proposals.

***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?***

The Institute has long been a supporter for the elimination of alternatives in accounting standards, believing that it is the responsibility of the standard setters to choose the preferred option.

However we are concerned that equity accounting is being adopted as a preferable option before a thorough review of the accounting needs of these arrangements has been undertaken. We are also advised by our constituents that eliminating proportionate consolidation as an accounting option will not necessarily achieve alignment with US GAAP in certain industries. We understand that US GAAP contains exemptions relevant to certain industries allowing proportionate consolidation. Therefore we question the need for this change of the international standard if its stated objective of US GAAP convergence will not be achieved in all cases.

IAS 31 should be the subject of a more wide ranging project designed to address the major issues of definition, substance v legal form, accounting policy and disclosure. We believe this project should be undertaken as a matter of priority as it is clear that the current standard is not effectively meeting the needs of its users.

**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 we agree to further disclosures in this area. We note that much of the additional disclosures proposed in the ED were originally included in the Australian version of IAS 31 as additional disclosures when the standard was first released here in July 2004. At the time, the AASB considered that such disclosures in

addition to the IAS disclosures 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 "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.

***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 we agree with the proposal to disclose a list and description of significant subsidiaries and associates in the relevant standards. These disclosures 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 provide useful information to assist shareholders in understanding an entity's involvement in these types of ventures

We would encourage the AASB to recommend that the IASB wording be more along the line of that 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 we agree with the current and non-current disclosures. We consider that information regarding the liquidity of these investments would be helpful to users in their understanding of the entity's involvement in these arrangements.

**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;
- 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

While we are supportive of the objectives of this ED we are concerned that in its current form these objectives will not be achieved.

Addressing the important definitional issues without addressing the effect that these have on the accounting methods used is not beneficial especially when both existing accounting options are known to have theoretical flaws.

We believe a better way to achieve quality and consistency of financial reporting for joint ventures is to undertake a thorough review of IAS 31. While we are aware that Australia eliminated proportionate consolidation as an accounting choice when IFRS was adopted in 2005, we have concerns that encouraging

its elimination internationally without undertaking a major review of joint venture reporting has the potential to sacrifice the quality of financial reporting for the benefit of international comparability.

However we are supportive of the additional disclosures being proposed as many are currently made and have been previously made by Australian entities and so these will improve international comparability at limited cost to Australia.

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

Refer comments above.