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Shane Buggle
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Mr David Boymal
Chairman
Australian Accounting Standards Board
P.O. Box 204
Collins Street West Vic 8007

Dear David

Exposure Draft 157: Joint Arrangements

Thank you for the opportunity to comment on this exposure draft.

ANZ supports the establishment of a "core principle" to guide the accounting by venturers for their interests in joint arrangements. Our detailed comments on specific matters raised in the Exposure Draft are attached to this letter.

Should you have any queries on our comments, please contact Justin Lachal, Head of Financial Policy at justin.lachal@anz.com.

Yours sincerely

SHANE BUGGLE
Group General Manager Finance

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

We support the use of the term "joint arrangements" to describe joint activities covered by the proposed Standard rather than the existing term "joint ventures". Furthermore, we support the use of the term "joint operations" rather than "jointly controlled operations" and "joint assets" rather than "jointly controlled assets".

We note that the proposed use of the term "joint venture" is wider than "jointly controlled entity" under the current Standard. For example, the proposed Standard indicates that a joint venture "often involves the establishment of a legal entity" and that "a business that is subject to joint control is ... a joint venture, unless circumstances indicate otherwise". Therefore, a "joint venture" will apply to joint arrangements that are conducted other than through the establishment of an entity such as a corporation or partnership.

As a general point we are concerned that the suitability and practicality of applying the equity method of accounting to a venturer's interest in a joint venture conducted other than through an entity such as a corporation or partnership is not addressed in the proposed Standard. Refer to additional comments under Question 2.

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 support the "core principle" stated in the Standard whereby a party to a joint arrangement should recognise assets, liabilities, income and expenses consistent with its contractual rights and obligations arising from the arrangement. While we see that this core principle is capable of being implemented for a joint operation and joint asset, the prescription that the equity method be applied to an interest in a joint venture raises concerns whether the equity method properly reflects the contractual rights and obligations arising from such a structure. We consider that a review of the equity method should have been undertaken at the same time as the establishment of the core principle to ensure that it meets this objective.

In addition, the widening of the definition of joint venture to include arrangements which do not reside in a legal entity or partnership may give rise to practical difficulties in applying the equity method. For instance, we perceive potential issues arising from the determination of:

- equity movements if there is no legal equity;
- what constitutes a dividend;
- determining investment cost; and
- determining share of profits/losses.

We consider that the guidance in paragraph 6 of the proposed Standard should be significantly expanded to provide further amplification of the practical implications of applying the core principle to contractual rights and obligations arising from joint arrangements. Furthermore, the examples provided in the Illustrative

Examples should be expanded to incorporate the follow-on accounting resulting from the type of arrangement. For example, paragraph IE11 does not elaborate on the "applicable IFRSs" that would apply in the example. This enhancement would make the examples more useful when attempting to apply the principles.

We recommend that the "core principle" stated in paragraph 1 of the proposed Standard should read as follows: "Parties to a joint arrangement recognise assets, liabilities, income and expenses in accordance with their contractual rights and obligations arising from the arrangement" (underlined text is additional to proposed text).

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 support the elimination of the proportionate consolidation method.

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?

We support the proposed disclosures in the draft Standard.

We note that proposed paragraph 41, under which "a venturer shall recognise in other comprehensive income its share of changes recognised in other comprehensive income by joint venturers" does not relate to a disclosure matter. Accordingly, we query the placement of this requirement in the disclosure section of the proposed Standard.

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 support this disclosure.

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?

We agree that disclosure of current and non-current assets and liabilities of associates may be potentially more useful to users.