PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
Telephone: +44 (0) 20 7583 5000
Facsimile: +44 (0) 20 7822 4652
Direct Phone: +44 (0) 20 7212 4555
Direct Fax: +44 (0) 20 7804 4643
pwc.com/uk

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

7 January 2008

Dear Sir or Madam

Exposure Draft: ED 9 Joint Arrangements

We are responding to your invitation to comment on the above exposure draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this exposure draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We welcome the opportunity to comment on the Board's proposals on this important topic.

We disagree, in general, with the Board's proposals set out in the exposure draft. We believe the proposals need further development to provide a comprehensive, appropriate and robust basis of accounting for joint arrangements. Further work is needed and the discussions must be integrated with the current debates on other projects, including the consolidation project, the leasing project and the conceptual framework project. We have identified in this letter the key areas where we believe more work is needed.

We acknowledge the Board's intention for this to be a limited scope project to achieve convergence in principle with US GAAP. However this limitation in scope has prevented the Board from achieving improvements in faithful representation that are needed and could be achieved with a broader project. The potential benefits of these proposals do not outweigh the cost and potential disruption for many entities as they re-assess and perhaps change their accounting for joint arrangements. Further, we do not believe that further convergence will be achieved in practice. This concern is more significant because we observe that joint arrangements are increasingly being used by companies to expand their operations in emerging markets.

Accounting for rights and obligations

The rights and obligations approach needs broader, general discussion so that it is clear what is meant by this concept and how it should be applied in a joint control environment. Are all rights assets and are all obligations liabilities? The exposure draft is unclear: is the asset *a share of* the underlying asset (a portion of a fixed asset) or is it *a right to use* the underlying asset? It is not clear if the exposure draft proposes mandatory recognition of the liabilities that a party has guaranteed or if existing IFRSs be applied to account for financial guarantee contracts and disclosure of contingent liabilities.

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

There are similar rights and obligations that exist outside a joint control environment. For example, undivided interests in a project where the participant does not have joint control because of the governance arrangements. The participant would be in a very similar economic position but would not be able to use the rights and obligations model.

Definition of joint control

The Board has not completed its discussions regarding the control concept within the consolidation project. It seems premature to publish a revised definition of joint control with specific accounting as a consequence until the conclusion of the debate on control. The proposed changes are not adequately supported by the Basis for Conclusions, for example the reasons for the decision to delete the requirement for joint decisions to be strategic decisions are not given.

Equity accounting

Proportionate consolidation provides disaggregated information that is informative to users of the financial statements. Particularly in natural resources, companies integrate joint ventures into their business and supply chain. Disaggregated information is useful and informative. We agree that proportionate consolidation has its conceptual flaws but equity accounting can not be assessed as superior. Equity accounting introduces practical application difficulties, such as the prohibition from equity accounting for net liabilities and accounting for investee to investor or upstream transactions. Expanding the use of equity accounting will highlight these flaws. We have provided further information about our concerns with equity accounting for joint ventures in appendix B to this letter.

US GAAP convergence

We believe that the practical effect of the Board's proposals is to create divergence with US GAAP for certain industries for which US GAAP allows proportionate consolidation. These are extractive and construction industries. Accordingly the proposals do not achieve the convergence with US GAAP that the Board seeks.

Our responses to the specific questions in the exposure draft are attached in appendix A to this letter. Details of our concerns with equity accounting are included in appendix B and other comments, including comments on the examples, are included in appendix C.

If you have any questions on the content of this letter, please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7212 4555), or Mary Dolson (+44 20 7804 2930).

Yours faithfully

Appendix A – Detailed responses

Definitions and terminology

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

Response: No, we do not agree with the proposed changes to the way joint arrangements are described. We believe that the classification of joint arrangements into three types should be based on a clear definition of those types supported by a description and perhaps examples.

We believe that the removal of the term 'strategic' from the definition of joint control changes the scope of the exposure draft compared with the scope of IAS 31. Our comments on this matter are described in more detail in appendix C. However, we understand that the changes made to the definitions are not intended to change the scope. Therefore it is not clear what benefits will accrue from the new definitions to outweigh the confusion that is likely to arise from the changes.

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?

Response:

The Board is increasingly using the concepts of rights and obligations, including in its revisions to the definition of an asset and debates on changes to IAS 37. We believe that more discussion of these concepts in a joint control environment is needed before the concepts can be robustly applied in complex situations. The exposure draft lacks clarity and seems internally inconsistent in explaining the application of the rights and obligations model.

The IFRIC describes in the Basis for Conclusions on IFRIC 4 that the asset under discussion in IAS 17 is principally a 'right to use' another asset. However, IAS 17 mandates that the 'right to use' results in recognition of a fixed asset or intangible asset for a finance lease. The IFRIC did not deal with this basic inconsistency because it was interpreting an existing standard and also did not want to prejudge the outcome of the leasing project. The IFRIC also noted the significant difficulty when considering whether the interpretation should be applied to portions of assets. The conclusion was that the interpretation should be applied to items that represent a unit of account under IAS 16 or IAS 38.

This same difficulty arises when considering asset and liability recognition in a joint control environment. The conceptual questions are not given sufficient discussion in the Basis for Conclusions. Does the right to use a portion of the capacity of a pipeline or aircraft mean that there is an intangible asset or a portion of a fixed asset? How does joint decision making result in asset recognition when a 'super-majority' arrangement that governs the same asset does not?

A specific example of this inconsistency is in respect of the accounting for joint assets. The core principle set out in paragraph 1 is that a party to a joint arrangement recognises its contractual rights arising from the arrangement. This principle is illustrated by example 2 and described in paragraph IE11. This paragraph states that each party recognises its unilateral

right to use the aircraft (the joint asset) for its own purposes on certain days. However, the guidance in paragraph 22 of the exposure draft states that the party should recognise its share of the joint asset.

The core principle and the guidance in paragraph IE11 appear to suggest that the asset recognised is the party's "right to use" the joint asset. This is consistent with the definition of an asset in the Framework because the party controls this "right to use" unilaterally.

However this is contradicted by paragraph 22. This paragraph suggests that the party recognises its share of the joint asset (i.e. the underlying asset to which the party has rights to use). Recognising a share of a joint asset is not consistent with the Framework definition of an asset because the party does not unilaterally control the joint asset.

The second example is in respect of accounting for obligations arising from a guarantee given by the party. Paragraph 6 states that a guarantee contract can negate the effect of limited liability. Paragraph 26 states that a venturer will often have a legal or constructive obligation to support financially the activities of the joint venture. This statement is made in the context of continuing to recognise losses in equity accounting after the venturer's interest has been reduced to zero. These paragraphs appear to suggest that a venturer will recognise liabilities in respect of a joint venture as a result of issuing guarantees.

However, IAS 39 provides guidance on the accounting for financial guarantee contracts and IAS 37 provides guidance on the disclosure and accounting for contingent liabilities. The guidance in IAS 39 requires an entity to account for the guarantee rather than account for the liability that has been guaranteed. IAS 37 requires that a liability is recognised only if the likelihood of the contingency occurring becomes probable. The proposals in the ED suggest that a liability for the amounts guaranteed would be recognised at an earlier stage than under existing IFRSs.

The other observation we have in respect of the principle of accounting for rights and obligations is the Board's intention through this exposure draft to restrict the application of this principle to circumstances where there is sharing of control. The exposure draft does not explain why accounting for rights to use an asset is restricted to arrangements where there is unanimous decision making required over the economic activities in which that asset is used. Equivalent rights to use an asset exist in arrangements where majority or super-majority decision making is required. However, where such rights are held within an entity, the arrangement must be classified as an associate (assuming significant influence). Where such rights relate to an unincorporated, undivided interest, there is no applicable IFRS literature other than the Framework or, IAS 31 / ED 9 by analogy. The Board has not given a conceptual explanation for this limitation. We believe the Board's discussions should be broadened to include these types of arrangement.

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?

Response: We do not agree that proportionate consolidation should be eliminated until a comprehensive solution has been found for accounting for joint arrangements. We believe that resorting to the use of the equity method for a residual interest in a joint venture does not provide information that is more relevant.

We understand the conceptual concerns that the Board has with proportionate consolidation. However proportionate consolidation provides a level of disaggregated information that is informative to many users of financial statements.

There are conceptual concerns with equity accounting and there are also practical difficulties with its application that tend not to arise in proportionate consolidation. These include

- Accounting for net liabilities
- Accounting for upstream transactions (investee sells to investor)

Net liabilities and upstream transactions are more likely to occur in joint ventures, particularly in natural resources. We expand on these concerns in appendix B.

IAS 8 paragraph 14 requires that changes in accounting policy should be made only if the change results in a policy that is reliable and more relevant. We do not believe that the replacement of proportionate consolidation with equity accounting for the residual interest in a joint venture meets this test.

Disclosure

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?

Response: Yes. We agree with the proposed disclosures, except as described below.

1. Separate disclosure should be required of the amounts included in each balance sheet line item which represent the reporting entity's interest in the assets and liabilities of joint arrangements that are classified as joint operations and joint assets.
2. The disclosure of other comprehensive income of joint ventures should also be required by paragraph 39 (b).
3. The disclosures proposed by paragraph 40 of the ED mirror those required by paragraph 38 of IAS 28. These disclosures are often best provided in the form of a reconciliation of the carrying amount of the investment at the start of the period to the carrying amount of the investment at the end of the period. Many entities already adopt this approach to the disclosure. Greater consistency between entities would be achieved if such a reconciliation was required.
4. We believe that the requirement in paragraph 41 is a recognition requirement rather than a disclosure requirement. We agree that the venturer should recognise in comprehensive income its share of its joint ventures' changes recognised in other comprehensive income. However this requirement should be included in the accounting section of the ED rather than the disclosure section.

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?

Response: Yes. We agree.

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?

Response: Yes. We agree that providing information about the current / non-current nature of the assets and liabilities of associates is more useful than not providing that information. However, we question whether it is conceptually valid to require the disclosure of the assets and liabilities that are equity accounted if it is not conceptually valid to account for them.

Appendix B – Issues relating to the use of equity accounting

Conceptual concerns

Equity accounting is described in IAS 28 as a basis of measurement for an investment in an associate. However IAS 28 also refers to the use of many of the procedures relevant to consolidations as applying to equity accounting. This leads to divergent views as to whether equity accounting is a measurement basis for a single investment balance or whether it is a single-line consolidation. Developments in financial reporting over recent years have increased the tension between the "collapsed consolidation" model and the financial asset model of equity accounting.

Impairment

Impairment is measured in three stages for an equity accounted investment. The first stage is the measurement of any impairment of the underlying assets at the investee level. Second is the extension of those impairment procedures using the fair values of the investee's assets at the date of acquiring an interest in the investee. The third level is the testing of the investment in the associate for impairment if the IAS 39 indicators of impairment are present as described in paragraphs 31-34 of IAS 28.

The first two stages of impairment testing are consistent with the notion of a single-line consolidation. The third stage of impairment testing is consistent with the notion of a single investment because the testing will be performed at the level of the shares held by the investor.

These contrasting concepts are highlighted in the ability to reverse impairments. The impairments in stages one and two are allocated first to goodwill and then to other assets within the investee pro-rata to their carrying amounts. Impairments against goodwill in stages one and two cannot be reversed. However impairments recognised at the third stage are not allocated against goodwill and are not prohibited from reversal.

An entity that applies proportionate consolidation is likely to perform a single impairment test that combines stages one and two. It is unlikely to perform a third stage impairment test because there is no investment asset. All impairment recorded in a proportionate consolidation model is therefore allocated against specific assets.

Recognition of losses below zero

An investor ceases to recognise its share of losses in an investee once the investment has been written down to zero unless the investor has a legal or constructive obligation to fund the losses of the investee. This reflects the notion that the investment in the investee is a single investment and not a single-line consolidation. This contrasts with proportionate consolidation where there is no such restriction.

However, continued recognition of losses of an associate may lead to an investment balance that is lower than the recoverable amount of the investment. This can occur where the associate has assets which have significant fair values that are not recognised under a historical cost basis. Consequently this approach to equity accounting is inconsistent with the concept that equity accounting is a measurement basis for an individual investment.

We expect that many joint ventures will have net liabilities after the assets used by the venturer's have been accounted for directly using the dual approach.

Elimination of profits in upstream transactions

IAS 28 paragraph 22 requires that the investor's share of profits from an upstream transaction between the investee and the investor should be eliminated. However it gives no guidance on how to do the elimination; against the carrying amount of the investee or the asset transferred.

Presentation of results

IAS 1 (revised 2007) paragraph 82 requires that an entity presents, as a single line item in its statement of comprehensive income, its share of profit or loss of associates and joint ventures accounted for using the equity method. Many entities expand their businesses into new territories through the use of joint ventures. The businesses of these joint ventures are extensions of the entity's operations and reflect a different level of involvement of management from that found in associates. Reporting the share of profit or loss of joint ventures accounted for using the equity method as a single line item after finance result, with that of associates, does not reflect the integral role that many joint ventures play in an entity's operations. Greater prominence in the income statement of the results of an entity's joint ventures might therefore be appropriate.

Some have suggested that the disaggregated data can be presented as part of the segment disclosures if this information is provided to the chief operating decision maker. This might allow users to create through aggregation the top line revenue information that they are interested in. However, the relevance of the primary financial statements is increasingly imperilled if a 'work around' is required to arrive at financial reporting measures that many preparers and users believe are crucial.

Appendix C – Comments on illustrative examples and other matters

Other comments on the exposure draft proposals

Scope concerns: change to the definition of joint control

The definition of joint control in the exposure draft has been changed from that used in IAS 31. IAS 31 defined joint control in the context of the *strategic* financial and operating decisions. ED 9 requires that the contractually agreed sharing of the power to govern relates to all the financial and operating policies rather than just the strategic ones. The effect of the change of the definition of joint control is to narrow the scope of ED 9 to fewer types of arrangement. The basis for conclusions does not explain why this change has been made.

We note however that paragraphs BC17-BC23 of the basis for conclusions to IFRS 3 (issued 2004) explains that the removal of the term ‘strategic’ had been considered at the time of publishing IFRS 3, but was rejected. The reason for the rejection in 2004 was that “requiring the unanimous consent on all financial and operating decisions would narrow by too far the types of arrangements meeting the definition of a joint venture”. We do not understand what has changed in the Board’s view since 2004 because the proposed change to the definition of joint control has not been explained in the basis for conclusions to ED 9.

Furthermore, we disagree with the narrowing of the scope of the standard in this way. We would prefer to see the principles of ED 9 extended to comparable arrangements where rights to use exist, albeit without the presence of joint control. This is explained in more detail in our answer to question 2 in appendix A of this comment letter.

Scope concerns: Incorporation of SIC-13 guidance

SIC-13 has been incorporated into the guidance in the exposure draft. We agree with this in principle. However, we disagree with the apparent limitation of the SIC-13 guidance to non-monetary contributions to joint ventures. We believe that the SIC-13 guidance should be applied to non-monetary contributions to joint arrangements involving joint assets also.

The principle for gain or loss recognition in SIC-13 is that the contributing party has exchanged control of the asset for joint control. Joint control does not constitute control to the degree usually associated with ownership and, accordingly does not preclude recognition of gains or losses (SIC-13.9). The contribution of a non-monetary asset to a joint asset arrangement is therefore consistent with the basis for gain or loss recognition in SIC-13. This can be contrasted with joint operations in which the parties retain control of the assets they use in the joint arrangement.

Scope concerns: Identification of ‘economic activity’

The presence of an economic activity is essential for the existence of a joint arrangement (appendix A). The exposure draft does not define or explain the term ‘economic activity’, nor is it defined or explained elsewhere in IFRS literature. It is clear from the exposure draft that economic activity is broader in what it encompasses than a ‘business’ (paragraph 5 and appendix A). It is also apparent from the exposure draft (paragraph 18) that all businesses include economic activity, however the term does not form part of the definition of a business.

We believe that a definition or an explanation of what constitutes ‘economic activity’ should be included in the exposure draft to assist in the identification of joint arrangements.

Scope concerns: Scope exceptions

There are three scope exceptions included in the exposure draft, all of which are carried forward from IAS 31. The first is the exception from equity accounting by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds. The second is the exception from equity accounting in accordance with paragraph 23 of the exposure draft. This exception applies when the interest in the joint venture is classified as held for sale in accordance with IFRS 5, or the exception from preparing consolidated financial statements applies to a parent entity, or when the conditions set out in paragraph 23(c) of the exposure draft apply. The third is the requirement to apply cost or fair value to measure the investment in the joint venture in the entity's separate financial statements.

It is apparent in each of these three circumstances that the exposure draft does not provide an exception from accounting for the joint assets that are present in joint arrangements. Accordingly the exposure draft appears to require that the party's rights and obligations relating to its joint arrangements are recognised as assets and liabilities, and that the party's residual interest is accounted for at the fair value of the residual interest or the cost of the residual interest, according to the requirements of the applicable exception. We understand the consistency of these proposals with the principles in the exposure draft however we are concerned about the additional complexity that this brings, especially when the fair value of the residual interest must be recognised. We do not believe that a short-term convergence project should introduce this level of complexity. We therefore encourage the Board to broaden the scope of this project to consider all aspects of accounting for joint arrangements.

Measurement of assets and liabilities in accordance with the dual approach

The guidance in paragraph 16 of the exposure draft explains that a joint venture represents the residual interest in a joint arrangement after the joint operations and joint assets have been accounted for. This is illustrated in example 2 in the illustrative examples. However the measurement basis for equity accounting of the residual assets and liabilities is not clear. This is relevant when an individual asset is not accounted for in full as a joint asset. The jet aircraft in example 2 is an example of this. Paragraph IE16 can be read as requiring a simple mathematical approach to the accounting in the joint venture entity for the purposes of determining the equity accounting (i.e. the equity-accounted residual is calculated as the difference between the amount that would be determined for equity accounting if only equity accounting was applied and the net value of assets and liabilities recognised as a result of recognising the party's rights and obligations). Is this the intended interpretation?

There appears to be at least two reasons why a residual interest in an asset may need to be accounted for. One is the reason in example 2 where the parties' rights to use the jet aircraft do not represent the whole of the asset – there is a residual interest that the joint venture entity retains that must be accounted for within equity accounting. A second reason is when the joint venture entity has incurred liabilities which are secured on the asset that the parties have a right to use. To what extent does the security of the liability affect the rights to use the asset and in turn affect the measurement basis of the asset? This will affect both the accounting for the portion that is a joint asset and the portion that is the residual. A clearer explanation of the measurement basis of the residual is needed.

Measurement of revenues: joint operations

The guidance in paragraph 21(c) of the exposure draft explains that a party to a joint arrangement recognises its 'share' of the revenue and expenses of the sale of goods or

services by the joint arrangement. It is not clear however what is meant by ‘share’. Is ‘share’ those individual items of revenue and expense that meet the criteria for recognition by the party to the joint arrangement or is it the party’s percentage of the total revenue and expense arising from the joint arrangement?

Loss of joint control

Paragraph 29 of the exposure draft explains that when a joint venture becomes an associate of an entity, the entity continues to account for its interest using the equity method. However, there is no guidance given on how joint assets that form part of the same joint arrangement should be accounted for when joint control is lost. Is the carrying amount of these assets and liabilities added to / deducted from the equity accounting balance, or should the proceeds received in return for surrendering joint control be apportioned in some way between the net assets that formed the joint assets and the residual joint venture and a gain/loss on disposal of the joint assets be recognised in profit or loss?

Joint venture held for sale

Paragraph 34 describes the accounting in circumstances when a joint venture no longer meets the criteria to be classified as held for sale. It states that a venturer ‘amends its financial statements for the periods since classification as held for sale accordingly’. This could be interpreted as requiring the previously published financial statements to be re-issued, whereas we understand the Board’s intention is to require restatement of the comparative financial information in the current financial statements. The wording of this requirement should be made clearer. However, this requirement seems not to be consistent with the requirements of paragraph 28 of IFRS 5, which requires that ceasing to meet the criteria as held for sale is recorded as an adjustment in the period in which the criteria for classification as held for sale are no longer met.

Comments on the illustrative examples

The illustrative examples are useful for providing practical guidance and bringing to life the principles described in the exposure draft. However the examples would benefit further from the use of numbers to illustrate the concepts in a more practical way.

Comments on the Illustrative Examples

Example 2 – Joint interest in a jet aircraft

Paragraph IE11 suggests that each party recognises its “rights” to use the aircraft, however the exposure draft in paragraph 22 suggests that each party recognises its “share of the joint asset”. The illustrative example suggests that each party recognises an aircraft (tangible) asset, however it is not clear that this is consistent with IAS 17 and the application of the finance versus operating lease classification criteria. We have described our concerns on this point in more detail in appendix A to this letter.

The penultimate sentence in paragraph IE 16 describes accounting by the joint venture itself, however the accounting by the joint venture is outside the scope of the exposure draft. The Board may wish to make clear that this guidance relates to the determination of equity accounting only. However, the impact of the rights to use on the accounting for the aircraft by the company is one that is not clearly explained. What is the measurement model that is to be applied by the company, or is it just a simple mathematical adjustment of the amount

recognised directly by the parties for their accounting for joint assets? This concern is described in more detail above.

This example is silent on the basis on which the parties are charged for use of the aircraft. It is not clear whether each party's investment in the entity is the extent of its financial obligations or whether there will be charges levied by the company to each party. It is conceivable that these might include a combination of a recharge of operating costs, a recharge of depreciation expense and, in some circumstances, a profit component. Addressing some common recharge mechanisms and their impact on the accounting would be helpful in illustrating the principles.

Paragraphs IE15-16: We are concerned that convergence with US GAAP may not be achieved in this example. Our analysis of the application of US GAAP to this example suggests that differences may be perpetuated on accounting for the 'right to use' the aircraft by the parties.

Example 3 – Jointly held office building

Paragraph IE 29: We note that the term 'i.e.' is used when describing the accounting in accordance with 'applicable IFRSs'. Is IAS 17 the only applicable IFRS?

Paragraphs IE24-26 and 32-33: We are concerned that convergence with US GAAP may not be achieved in this example. Our analysis of the application of US GAAP to this example suggests that differences may be perpetuated in the lease accounting by the joint venture and investors.

Example 5 – Mining unitisation arrangement

Paragraphs IE 42 – 45: Our analysis suggests that this example might be a combination of joint operations (mineral rights assets retained) and joint assets (production equipment and other resources). It is not clear why the example refers only to joint assets.

Paragraph IE 42: We agree that generally there is no business when a mining activity is in the exploration stage, but we are concerned that the statement made may create an inappropriate rule.

Paragraph IE 45: We disagree with the analysis. We believe the example should distinguish between the mineral rights asset which is the retained asset (as described in paragraph IE43) and the other assets such as joint production equipment which are joint assets (as described in paragraph IE44). This is an important distinction because it is the status of the mineral rights asset that is altered in the first variation. The basic example set out in paragraphs IE39-IE41 appears to be a combination of joint operations and joint assets.

Paragraphs IE52-54: We are concerned that convergence with US GAAP may not be achieved in this example. Our analysis of the application of US GAAP to this example suggests that if this arrangement meets the definition of an unincorporated entity (EITF 00-1), the accounting may differ.

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

Paragraph IE 59: We note that the conclusions reached in the example are not consistent with the answer that would be reached in accordance with US GAAP. Paragraph 47(h) of SFAS 19 would not permit the recognition of a gain on sale of an interest in a field unless the proceeds exceed the cost of 100% of the field. We do not disagree with the conclusion that a

gain or loss on part-disposal of an interest in the field is recognised in accordance with IFRS but we are concerned that this highlights a difference with US GAAP when a key objective is the convergence in principle with US GAAP.