



The ED9 Project Manager
International Accounting Standards Board
30 Cannon St.
LONDON, EC4M 6XH

9 January 2008

Dear Sir or Madam,

RE: ED 9 JOINT ARRANGEMENTS

In response to your consultation on the above referenced exposure draft, BUSINESSEUROPE would like to offer the following general comments and then answer the specific questions of the exposure draft.

BUSINESSEUROPE would support a new standard on accounting for Joint Arrangements to replace IAS 31 on Interests in Joint Ventures if it would give more clarity for both users and preparers. Unfortunately ED 9 has not reached this objective. While we welcome the clarification of the terminology and the requirement that a party to a contractual arrangement should recognise its rights and obligations in accordance with their economic substance, we consider that the Board has not improved the accounting for joint ventures by requiring to account for all joint ventures in accordance with the equity method and by eliminating the option of consolidating joint ventures in accordance with the proportionate consolidation.

The Board's arguments for removing the proportionate consolidation is that it results in recognising in the balance sheet assets that are not controlled and liabilities that are not obligations, which does not comply with the Framework. Although we acknowledge this argument, we believe that the Board has not given enough weight to the fact that the Framework also requires a faithful representation of the transactions and other events of an entity (paragraphs 33 and 34). In paragraph BC9 of the ED, the Board asserts that "*the proportionate consolidation leads to the recognition of amounts that do not represent faithfully an entity's assets and liabilities*" but it then proposes to recognise joint ventures with the equity method that mixes them with associates. The Board refutes this inconsistency by saying in BC13 that "*enhanced disclosure requirements [...] would provided better information [...] than the proportionate consolidation*". We do not consider this argument as a very strong one because, in



proposing to replace a method (the proportionate consolidation) by another method (equity consolidation) plus disclosures, the Board is just doing what it prohibits to the preparers in IAS 1 paragraph 16, which says that “*Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material* “. In dealing with faithful representation the Board has failed to discuss the economic effects of joint ventures compared to consolidated companies and associates.

Joint ventures and associates have different characteristics. Investors in a joint venture are almost always active and should strive for consensus, otherwise the joint venture collapses. Conversely, investors in associates are often less active, they may express their views but then the majority investors decide. Since joint control is closer to full control than to significant influence, a line by line consolidation of all the proportion of assets, liabilities, income and expenses of joint ventures achieves a better representation of the investments of a venturer especially in large groups of companies where certain businesses are carried-out by a combination of joint ventures and fully controlled companies. This has an impact on the balance sheet and also on the income statement but the income statement impact is very important because revenue and organic growth as well as operating profit of joint ventures are part of the total economic activity of an entity. Therefore we consider that the use of the equity method for joint ventures replaces the inconsistency of consolidating a proportion of balance sheet and income statement elements that an entity does not control by the inconsistency of mixing the equity in the net assets and in net income of joint ventures with those of associates and provides information that is less relevant to the users and does not achieve the faithful representation as required by the Framework.

In the Illustrative Example 2 – “Joint interest in a jet aircraft”, the Board tries to explain that, from a substance over form point of view, the transfer of a joint asset to a joint venture has little accounting effect and it gives the example of the transfer to a joint venture of an aircraft previously run as a joint asset (IE15). Then the Board asserts that each party would continue to recognise their rights to the jet aircraft and that the value of the aircraft asset that would be accounted for in accordance with the equity method would be very low because it would represent an asset without its right of use (IE 16). Therefore industrial groups that currently use the proportionate consolidation might not be affected by the elimination of the proportionate consolidation if they would recognise the rights to use their joint assets to their own balance sheets.

Unfortunately this is pure theory and inapplicable in practice. How could an industrial group running several factories with another group measure the rights to use the factories, carry them to its balance sheet and then, in the joint venture, recognise the factories without their operating rights? It is hard to believe that such an example would sustain a field test with any industrial group and, if it ever would be practicable, then it would cause incommensurable costs without any benefits. Conversely, industrial groups with important joint ventures may try to convert them into joint assets, which would also cause considerable costs for no benefits.

We also are not convinced by the arguments of paragraph BC14 about the use of the equity method in many jurisdictions because the proportionate consolidation is also used in several other jurisdictions such as, e.g., France, Belgium, Spain, Switzerland, etc.

During the 2003 revision of IASs for the 2005 Stable Platform, we noted that it was not the Board's intention to reconsider the fundamental approach to the accounting for joint ventures (IAS 31 rev 05, BC3) though the Board had favoured to reduce options. It therefore seems difficult to understand why the Board is reopening this issue after only three years because the proportionate consolidation is not a convergence issue as it affects neither the net profit nor the equity of a group. Actually, even if ED9 would become a standard, not all differences would be eliminated with US GAAP because EITF 00-1 allows a limited exception for using the proportionate consolidation based on longstanding practice in the construction industry and extractive industry.

To summarise, we consider that the proposed elimination of the option to use the proportionate consolidation for joint ventures :

- would not provide a faithful representation of the activities of joint ventures;
- would create considerable costs without any benefits in jurisdictions where the proportionate consolidation is used because companies would try restructure their operations; and
- is not necessary to achieve convergence with US GAAP because US listed companies already apply and will continue to apply the equity method, moreover it would not eliminate all differences with US GAAP.

Therefore we consider that the proportionate consolidation should be maintained as an option. We do, however, acknowledge that the proportionate consolidation causes some inconsistencies with the Framework but these should be dealt with in the comprehensive consolidation project to be undertaken between the IASB and the FASB that would review all consolidation issues including the control concept.

Answers to specific questions

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

We agree with the change of terminology compared with IAS 31 and consider that the way joint arrangements are described now better reflects their economic substance.

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 agree that the contractual rights and obligations should be recognised in accordance with their economic substance and that, as mentioned in paragraph 6 of the ED, the legal form of an entity is not necessarily an evidence of the rights and obligations of an entity if other contracts create different rights and obligations. However, as explained in the introduction of this letter and in our answer to question 3, we do not consider that the elimination of the option to use the proportionate consolidation achieves a correct recognition of the contractual right and obligations of the venturers and we disagree with it.

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?

While we agree with the recognition of assets, liabilities, income and expenses related to joint arrangements, we do not consider that this treatment could be related to the elimination of the proportionate consolidation, which we disagree with. Please see the introduction of this letter and in particular our rebuttal of the fact that the transfer of a joint asset to a joint venture has little accounting effect.

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?

Concerning other joint arrangements (joint assets and joint operations), for which the assets and liabilities, income and expenses are to be accounted for in accordance with the relevant IFRSs, we do not see in general that there is a need for any disclosures over and above those required by each of those standards.

For example, disclosures under IAS 16 would include capital commitments (or a share of) related to the entity's joint asset and joint operation arrangements. Similarly, the contingent liabilities (or a share of) related to the entity's joint asset and joint operation arrangements would be part of the total amount shown under IAS 37 disclosure requirements.

Separate disclosure for amounts related to joint assets and joint operations is not required for any income statement or balance sheet amount. Therefore it seems illogical to have special requirements for capital commitments and contingent liabilities – the amounts required in paragraphs 37 and 38 would already be within the disclosures for the entity as a whole. We would recommend that paragraphs 37 (a) and 38 (a) be deleted. We agree that it may be useful to retain paragraphs 37 (b) and 38



(b), i.e., separate disclosures of the element within the entity's total capital commitments and contingent liabilities in excess of its share in the arrangements.

There appears to be some inconsistency however, that ED 9, in paragraph 38 would require disclosure over and above what the entity would include under IAS 37 because there is no exclusion for items considered remote.

Concerning joint ventures we consider that the disclosure requirements demonstrate the complexity that the use of the equity method creates for the preparers. With the proportionate consolidation all the information required is tracked in the consolidation systems. With the equity method all this information will have to be tracked separately so that the users may assess the importance of the balance sheet, income statement and cash flow elements of the joint ventures.

We do not consider that additional disclosures should be required.

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 consider that the restoration of list of subsidiaries, associates and joint ventures is a useful information that many preparers continued to disclose on a voluntary basis after their deletion in the 2003 Improvement project.

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?

As far as associates are concerned, we do not consider that that this disclosure would be useful as an investor in an associate would have no possibility to block decisions regarding the asset and liability allocation of an associate. In contrast we believe that this information is useful with respect to a joint venture, which is equity consolidated. The proposal of this question demonstrates again the confusion that is created between the accounting of associates and joint ventures.

Yours sincerely,

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Director
Legal Affairs Department
Internal Market Department