



January 11, 2008

Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London, United Kingdom  
EC4M 6XH

Dear Sir or Madam,

The Committee on Corporate Reporting of Financial Executives International Canada (“FEI Canada”) is writing to provide its response to the International Accounting Standards Board (“IASB”) Exposure Draft (“ED”) 9 - Joint Arrangements.

FEI Canada is an all-industry professional association of senior financial executives, with eleven chapters across Canada and more than 2000 members. Membership is generally restricted to senior financial officers of medium to large corporations, as well as senior financial officers in public sector organizations.

The Committee on Corporate Reporting (“CCR”) is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross-section of the FEI membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

In general, CCR supports the IASB’s re-examination of the accounting for joint arrangements and is in favour of a method that more appropriately focuses on rights and obligations, rather than on legal form. However, as this ED attempts to cover a vast array of commercial arrangements, we feel that there will be some confusion in the practical application of the proposed standards and that additional clarity is needed. We have attempted to address these concerns in the responses below. In addition, we support the IASB’s efforts to converge IFRSs and U.S. GAAP, but it remains uncertain whether or not amendments to existing U.S. GAAP will be required in order to achieve full convergence in this area.

## Question 1

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

We support the separate definitions and prescribed accounting for joint operations and joint assets as these represent situations where the entity retains rights and control over their asset. The only area of concern exists in Paragraph 8 where the ED describes a joint operation as one where each party is using its own assets, incurring its own expenses and raising its own financing. Are all three of these criteria required to meet the definition or would two of three criteria suffice?

With respect to the definition and accounting for joint ventures, we feel that further clarification is needed. The key areas of concern are as follows:

Substance vs. Legal Form - The ED stresses that legal form is no longer the most significant factor in determining the accounting. While we agree that near identical situations should not be accounted for differently (for example, if a “shell company” is used to hold joint assets), that seems to be in contradiction with the descriptions surrounding joint venture. Paragraphs 15-20 seem to imply that the appropriate accounting will change when the reporting entity owns an interest in another entity instead of owning the asset directly - ie, they now own an investment instead of a physical asset. As noted in the illustrative examples, the intent of the ED is to “look through” the legal form and, instead, examine the rights of the reporting entities with respect to the assets. We feel this point needs to be clarified in the text of the ED.

Legal Entity - Paragraph 17 states that a joint venture often involves the establishment of a legal entity, such as corporation. The ED should provide confirmation that the same accounting would be used if another form of entity was used, such as a partnership, since partnerships are not a taxable entity in many jurisdictions and may not have the same legal standing as a corporation, but are still governed through boards of directors, partnership agreements, etc. We feel this arrangement should be also be accounted for as a joint venture and should be clarified in the final standard.

Business - The ED describes a joint venture as an interest in a business which involves a group of assets, but what if the joint venture (eg, a corporation or a partnership) only involves one asset? Assuming the arrangement otherwise meets the definition of a joint venture (eg, venturers do not have direct rights to the underlying asset but only have an economic interest in the net outcome of the corporation or partnership), we feel this arrangement should also be accounted for using the equity method. Therefore, we believe the ED needs to be clarified as it seems to imply that a business (ie, a group of assets) is necessary to meet the definition of a joint venture. In addition, not all businesses are joint ventures.

Illustrative Examples - While we believe illustrative examples are very helpful in applying these proposed rules to practical circumstances, they also created a certain level of confusion with respect to the co-existence of both joint assets and joint ventures. In particular, it does not appear clear in Example 2 Variation as to how the reporting entity is expected to report both a share in a joint aircraft (ie, joint asset) and a separate interest in a joint venture whose primary asset is that same aircraft? A similar confusion exists in Example 5 Second Variation where the joint asset represents the primary business of the joint venture but both are to be reported separately. How does the reporting entity report the joint venture exclusive of the joint asset which it owns?

In summary, we believe that the proposals do not provide sufficient guidance in terms of when it is appropriate to “look through” the legal structure of a joint arrangement.

## **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?*

While we agree that the reporting entities should recognise their contractual rights and obligations under a joint arrangement, we find that it can be very difficult to distinguish a joint asset vs. a joint venture in respect of single purpose entities jointly controlled by the venturers. These concerns are more fully explained in our response to Question 1.

## **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 generally agree that the proportionate consolidation of joint ventures should be eliminated as it inappropriately implies that the reporting entity has direct control over its proportionate share of the individual assets (eg, cash) or a direct share in the revenue streams of the joint venture.

We strongly feel that the use of equity accounting vs. proportionate consolidation should reflect the substance of the situation rather than its legal form.

#### **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 generally agree with the proposed disclosures due to the fact that the reporting entity does not fully control the assets or operations under the joint arrangements. As with all disclosures, this information should only be disclosed where significant to the overall operations of the consolidated entity.

Unless individually material to the consolidated reporting entity, we would generally not agree with disclosing the proportionate share of capital commitments of a joint venture. Following the definition of a joint venture (ie, a joint investment in another entity without control over individual assets or liabilities), these underlying commitments should only be disclosed in situations where they represent a potential cash outlay by the reporting entity. In many cases, these commitments would be funded through the normal operations of the joint venture and not by the reporting entity. Therefore, this disclosure appears to contradict the fact that the reporting entity only has an interest in the net outcome of the joint venture.

#### **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 would not agree with disclosing a list and description of significant subsidiaries as the underlying premise of reporting on a consolidated entity is that it operates as one entity, whether that is one large company or a conglomeration of numerous wholly-owned subsidiaries. We would feel that the intent of these proposed changes are already appropriately addressed through the segmented reporting rules.

#### **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 feel that these disclosures for associates should be consistent with those of joint ventures, as both are accounting for using the equity method.

CCR hopes that its comments will be useful to the IASB in its deliberations. If you have any questions or would like to discuss any of these matters, please do not hesitate to contact us.

Yours very truly

A handwritten signature in black ink, appearing to read 'Alister Cowan', with a long horizontal flourish extending to the right.

Alister Cowan

Chair  
Committee on Corporate Reporting  
FEI Canada

copy: Mr. Peter Martin, Accounting Standards Board (Canada)