Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

14 January 2008

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

Dear Sirs,

IASB Exposure Draft ED 9 *Joint Arrangements*

The Hong Kong Institute of CPAs is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in the Exposure Draft are set out in the Appendix for your consideration, in case the Board decides to continue with this project in its present form.

We support the IASB's continuing efforts to improve financial reporting standards, especially those older standards inherited from its predecessor, the International Accounting Standards Committee. However, we do not consider that this Exposure Draft provides improved financial reporting.

We note that the proposals aim to remedy the following perceived shortcomings in IAS 31 *Interests in Joint Ventures* that:

(a) the form of the arrangement is the primary determinant of the accounting; and

(b) an entity has a choice of accounting treatment for interests in jointly controlled entities.

We do not consider that the Exposure Draft has successfully achieved either objective. While noting that IAS 31 placed excessive reliance on the legal form of an arrangement, it appears that ED 9 places too little reliance on legal form. For example, we can envisage an entity where some assets could be used in a joint operation, other assets meet the definition of joint assets and some activities are conducted through joint ventures. As a result:

(a) any remaining part of the entity outside any joint arrangement will provide little information for users of its financial statements; and

(b) such a range of accounting outcomes will, in effect, permit a mix of equity accounting and quasi-proportionate consolidation which will not achieve the Board's objective.

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

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Further, we note that the imperatives for the Board's Short-term Convergence project with the United States Financial Accounting Standards Board has been reduced with the acceptance of IFRSs by foreign issuers in the United States. As these proposals do not achieve full convergence with US GAAP, we do not support them proceeding as part of the Short-term Convergence project.

We recommend that this project be deferred until the Board has the time and resources to conduct a full review of the appropriate accounting for joint arrangements.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkicpa.org.hk.

Yours sincerely,

Patricia McBride
Executive Director

PM/WC/ac

APPENDIX

Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft
ED 9 *Joint Arrangements*

Definitions and terminology

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

No, we do not agree with the proposed changes as the new classification is not significantly different from the present IAS 31. We do not consider that the new approach of distinguishing joint arrangements has solved the problems of an entity recognising assets that are not fully controlled and liabilities that are not obligations (see BC8) and an entity not recognising its assets and liabilities (see BC10).

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?

We agree that the form of the joint arrangement should not be the primary determinant of the accounting as applied to some extent in the present IAS 31. However, we consider it might be premature to adopt the concept of rights and obligations in a joint control environment. Currently, the *Framework for the Preparation and Presentation of Financial Statements* does not have guidance on how to account for "portions of assets" or "rights to use" or "joint control". We believe more discussion on these is necessary, especially of how a "right" that is subject to joint control differs from a stand-alone "right".

In addition, we consider that the ED does not provide clarity on the circumstances under which a "right" (see paragraph 11) or "share of the joint asset" (see paragraph 22) should be recognised under the joint asset arrangement or on the associated measurement. For example, the cost of an asset that subsequently becomes a joint asset may not appropriately reflect "cost", and the consequential application of IAS 36 *Impairment of Assets* is problematic.

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 do not agree that proportionate consolidation should be eliminated before the concept of rights and obligations are made clear as mentioned in Question 2. Although we agree that proportionate consolidation is not conceptually justifiable, we do not agree that equity accounting better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, for example, a reporting entity ceases to recognise its share of losses in an investee once the investment has been written to zero under the equity accounting unless the investor has a legal or constructive obligation to fund the losses of the investee. However, the investor will pick up its share of all losses as they arise where the proportionate accounting is used.

Further, we note that a collection of joint assets would be effectively accounted for as being proportionately consolidated under the proposals in the Exposure Draft.

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?

Yes, we agree with the proposed disclosures.

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 as the information on significant subsidiaries and associates are useful to investors.

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 consider that it is more useful to users if an entity discloses current and non-current assets and liabilities of associates than if an entity discloses total assets and liabilities in the case where the associate constitutes a major part of an entity. It is very common for Hong Kong holding companies to transact their business activities through their associates and this proposal will enhance transparency.

Transitional arrangements

We note that ED 9 contains no transitional arrangements. As a result, entities would be required to retrospectively restate their joint arrangements in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We consider that where restatement would require undue cost or effort, the carrying amount of the assets and liabilities of a joint operation, any joint assets or any joint ventures accounted for using proportionate consolidation immediately before the application of the standard arising from ED 9 should be deemed to be the cost or equity accounting carrying amount, as appropriate.