

January 9, 2008

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

Dear Sir or Madame,

Comments on the Exposure Draft ED9 “JOINT ARRANGEMENTS”

We appreciate the efforts of the International Accounting Standards Board (IASB) on the joint venture project and welcome the opportunity to comment on the Exposure Draft 9 (ED9) “Joint Arrangements”. The views described below are those expressed by the Technical Committee for SPEs in the Accounting Standards Board of Japan (ASBJ). In the Technical Committee, we have deliberated issues mainly on the scope of consolidation, including SPEs, and also discussed the ED9 to provide comments to the IASB.

1. General Comments

- (1) We agree with the objective of the ED9 which is to enhance the faithful representation of joint arrangements that an entity provides in its financial statements.
- (2) We believe that developing the ED9 on joint arrangements and superseding IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* would reduce differences between International Financial Reporting Standards (IFRSs) and US GAAP. In addition, the development of the proposed IFRS would result in converging Japanese GAAP, which is one of the accounting standards currently used in the major capital markets in the world, with IFRSs and US GAAP.

2. Comments on Questions 1-6

The following descriptions are our comments on the questions which are set out in the ED9.

Our comments include responses to the questions and recommendations on the draft IFRS. We hope that this helps the forthcoming deliberations in the project.

Question 1 – Definitions and terminology

The exposure draft proposes that the IFRS should be applied to arrangements in which decisions are shared by the parties to the arrangement. The exposure draft identifies three types of joint arrangement—joint operations, joint assets and joint ventures. A party to an arrangement may have an interest in a joint operation or joint asset, as well as an interest in a joint venture. Joint ventures are

subject to joint control (see paragraphs 3–6 and 8–20 and Appendix A of the draft IFRS and paragraphs BC16–BC18 of the Basis for Conclusions).

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

Response to Question 1: We agree with your proposal in the respect that the definition of joint arrangements is based on shared decisions which require the consent of all of the parties to a joint arrangement.

Questions 2 and 3 – Accounting for joint arrangements

The exposure draft proposes:

- that the form of the arrangement should not be treated as the most significant factor in determining the accounting.
- that a party to a joint arrangement should recognise its contractual rights and obligations (and the related income and expenses) in accordance with applicable IFRSs.
- that a party should recognise an interest in a joint venture (ie an interest in a share of the outcome generated by the activities of a group of assets and liabilities subject to joint control) using the equity method. Proportionate consolidation would not be permitted. (See paragraphs 3–7 and 21–23 of the draft IFRS and paragraphs BC5–BC15 of the Basis for Conclusions.)

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 to Question 2: We agree that a party to a joint arrangement should recognize its contractual rights and obligations relating to the joint arrangements. We think that the above proposals in the exposure draft are consistent with and meet its objective which is to enhance the faithful representation of joint arrangements that an entity provides in its financial statements.

In relation to Question 1 and 2, we would like to provide some recommendations as described below:

Recommendation 1: The term ‘the financial and operating policies of a joint venture’ in the definition of a joint control is not obvious. In our view, fundamental changes in the organization (such as disposals of business units) and appointing and discharging the board of directors would be included in that term. Illustrating with examples what the term ‘financial and operating policies of a venture’ represents would be useful.

Recommendation 2: In order to clarify the definitions of ‘joint arrangement’ and ‘shared decisions’, which should be made among independent third parties, the term ‘independent’ should be added to

those definitions. Based on this recommendation, the definition of a joint arrangement as described in Appendix A would be ‘a contractual arrangement whereby two or more independent parties undertake an economic activity together and share decision –making relating to that activity’, and the definition of shared decisions would be ‘decisions that require the consent of all of the independent parties to a joint arrangement’.

Recommendation 3:

Considering that one joint arrangement consists of a combination of types such as a joint operation, joint assets and joint venture, we suggest that the following additions or amendments are to be made to facilitate the readers’ understanding:

- (1) The definition of ‘joint asset’ in Paragraph 11 does not seem to be consistent with those of ‘joint operation’ in Paragraph 8 and ‘joint venture’ in Paragraph 15. This is because definitions of ‘joint operation’ and ‘joint venture’ mention that they are a kind of a joint arrangement, or part of a joint arrangement - whereas ‘joint asset’ is not defined in a similar manner. Considering that Paragraph 3 states that the exposure draft classifies joint arrangement into three types and Paragraph 4 states that parties to a joint arrangement may have an interest in a joint operation or joint asset and also have an interest in a joint venture, we suggest that Paragraph 11 should clearly indicate that a joint asset is a joint arrangement, or part of a joint arrangement.
- (2) The application guidance in Appendix B shows that an assessment as to whether the party has contractual rights to individual assets or contractual obligations for expenses or financing is required in determining how to recognize its interests in the joint arrangement. Our understanding of the flow chart in the application guidance is described in the following paragraphs a) and b). Given that these are consistent with your views in the draft IFRS, it would be recommended that what the arrows in the flow chart imply should be indicated clearly and some applicable cases should be illustrated with examples to reflect the paragraphs a) and b). Further clarification of the application guidance would be useful for readers of the proposed IFRS.
 - a) If the party does not have any contractual rights to individual assets or contractual obligations for expenses or financing, the party shall recognize all of the assets and liabilities of a joint venture (i.e. all interests in a joint venture) using the equity method.
 - b) If the party has any contractual rights to individual assets or contractual obligations for expenses or financing, the party recognizes each assets and liabilities where it has contractual rights and obligations in accordance with applicable IFRS, and then, the remaining assets and liabilities, which are not recognized in accordance with applicable IFRS, shall be recognized in the party’s financial statements using the equity method.

Recommendation 4:

The Paragraph 21 requires a party, which has its interest in a joint operation, to recognize the following items;

- a) the assets it controls and the liabilities it incurs
- b) the expenses it incurs, and
- c) its share of the revenue and expenses from the sale of goods or services by the joint arrangement

Each party to a joint operation shall recognize its own assets it controls and liabilities it incurs through its involvements in a joint operation (Paragraph 9 and 21) and it implies the different situation from the case of a joint asset. However, Paragraph IE7 of Example 1 states that each party to a joint operation recognizes their own assets and their share of any liabilities incurred among other parties to the joint arrangement, which seems to be inconsistent with Paragraph 9 and 21 on how to recognize its liabilities. Therefore, we recommend that Paragraph IE7 of Example 1 should be modified to reflect the definition of a joint operation as described in Paragraph 9 and 21.

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 to Question 3: We agree with your proposal that proportionate consolidation should be eliminated. We think that it would be appropriate that based upon the description of a joint arrangement (1) the party recognizes each asset, liability, income and expenses if it has contractual rights to individual assets or contractual obligations for expense or financing and (2) the party is not allowed to recognize individual assets, liabilities, income and expenses if it does not have contractual rights to those assets or obligations for expenses or financing of the group, rather it is entitled only to a share of the outcome of the activities of the group.

Question 4-6 - Disclosure

The exposure draft proposes:

- to require an entity to describe the nature of operations it conducts through joint arrangements (see paragraph 36 of the draft IFRS and paragraph BC22 of the Basis for Conclusions).
- to align the disclosures required for joint ventures with those required for associates in IAS 28 *Investments in Associates* (see paragraphs 39–41 of the draft IFRS and paragraph BC23 of the Basis for Conclusions).
- to require the disclosure of summarised financial information for each individually material joint venture and in total for all other joint ventures (see paragraph 39(b) of the draft IFRS and paragraph BC13 of the Basis for Conclusions).
- as consequential amendments to IAS 27 *Consolidated and Separate Financial Statements* and IAS 28, to require disclosure of a list and description of significant subsidiaries and associates. Those disclosure requirements were deleted in 2003 as part of the Improvements project. However, the Board understands

from users that such disclosures are useful.

- as a consequential amendment to IAS 28, to require disclosure of current and non-current assets and current and non-current liabilities of an entity's associates. The proposed IFRS would require disclosure of current and non-current amounts, whereas IAS 28 currently requires disclosure of total assets and total liabilities.

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 to Question 4: We agree with your proposal to the above disclosures. We think that your proposed disclosures would be sufficient for users to understand economic environment of a joint arrangement. Therefore, we do not have any specific idea for additional disclosures to the above proposed items which might be more informative to users of financial statements at this moment. However, it might not be expected that total summarized financial information for all joint ventures other than individually material joint ventures would always provide users with useful information. .

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 to Question 5: We agree with your proposal to restore the requirement to disclose a list and description of significant subsidiaries and associates, which would meet the needs of users of financial statements.

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 to Question 6: We agree that current and non-current assets and liabilities of associates could provide useful information to users of financial statements.

We expect that our comments contribute to the forthcoming deliberations in the project.

Yours sincerely,

Takehiro Arai

Takehiro Arai

Chairman of the Technical Committee for SPEs

Board member of the Accounting Standards Board of Japan