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IASB's Exposure Draft on ED 9 Joint arrangements

Dear Mr. Enevoldsen,

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft letter on Exposure Draft of proposed ED 9 Joint arrangements.

We thank you for this opportunity to comment on your draft letter and we are therefore pleased to provide you with the following comments:

- In general, CESR is supportive on the comment letter prepared by EFRAG on this issue. CESR - as EFRAG - usually supports the elimination of options within standards, as this increases comparability which is not necessarily achieved with additional disclosures. CESR is therefore not convinced that EFRAG's suggested new disclosure requirements regarding management's justification of the choice of accounting policies for jointly controlled entities are the best solution to meet to concerns of having two options in IAS 31. Also, CESR would like to highlight a few comments as set out below.
- CESR is supportive of the efforts of the IASB towards international convergence and in this case is supportive of exploring opportunities for convergence on accounting for joint arrangements in this short term project with the FASB.
- Although the IASB's decision to eliminate the method of proportionate consolidation for jointly controlled entities will advance towards convergence with US GAAP, it will not be a full convergence, as for example US GAAP allows the proportionate consolidation method for certain industries. The deletion in the name of convergence only does not, in CESR's opinion, justify the deletion. In addition, IASB substantiates the deletion of the proportionate consolidation with the conclusion that the proportionate consolidation is in conflict with the framework. Therefore, CESR is of the opinion that the IASB should clarify the convergence taking place with this standard in more detail including where the new standard is not fully converged with US GAAP. Also, CESR sees the need for a justification for the arguments regarding the conflict between the framework and IAS 31.
- Deleting the option of the proportionate consolidation method for jointly controlled entities leaves the equity method to be used for all jointly controlled entities. IASB has decided not to conduct an analysis on the equity method in connection with the issue of this exposure draft for joint arrangements. Before deciding on the most appropriate accounting method for jointly controlled entities, CESR is of the opinion, that more analysis on the use and appropriateness of



both the proportionate consolidation method and the equity method for jointly controlled entities is needed. The proportionate consolidation method is very common throughout Europe, especially in the sectors where US GAAP allows the use of the method. CESR would therefore like to encourage the IASB to identify the advantages and disadvantages for both the proportionate method and the equity method. The IASB should hereafter select the accounting treatment that results in the most useful information for investors or other users of financial statements. Accordingly, we believe the IASB should better explain why it selected the equity method rather than the proportionate consolidation method when accounting for jointly controlled entities.

Consequently, it is necessary that the IASB carries out a more comprehensive review to address the concerns raised above before CESR can have a final opinion on the Exposure Draft.

I should be happy to discuss all these issues further with you.

Yours sincerely,

(Signed)

Fernando Restoy
Chairman of CESR-Fin