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Dear Madam, dear Sir

### **Exposure Draft - ED 9 Joint arrangements**

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the Exposure Draft ED 9 Joint Arrangements (ED) issued by the IASB.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

CEBS will not provide comments on the questions as stated in the ED but rather raises some concerns – which are both of general and of technical nature – with regard to provisions in the ED.

While it is acknowledged that the ED is part of the Short-term convergence project undertaken by the IASB and the Financial Accounting Standards Board (FASB) in the United States and aims at reducing differences between International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP), CEBS is of the opinion that the changes introduced by ED9 have some far-reaching implications and cannot be addressed in isolation from other major projects.

Indeed, to the extent that the problem at the heart of the ED – set out in BC8 – pertains to the definition of assets and liabilities in the Framework, CEBS considers that it is important to ensure that any further work on this project is consistent with developments regarding Phase B of the work on the Conceptual Framework: Elements and Recognition.

Moreover, it is felt that, at least from a prudential point of view, more analysis is needed before CEBS can express a view on the proposal set out in ED9 to remove the proportionate consolidation method for joint ventures. We note however that the removal of the proportionate consolidation method could lead to further discrepancies between the ways banks prepare accounting and prudential figures. Further analysis on the prudential implications of the proposal are therefore currently being undertaken by CEBS. To the extent necessary, any

conclusions of this analysis will be communicated to the IASB and/or the European Commission at a later stage.

In addition to these general comments CEBS would also like to raise two concerns regarding detailed changes that the ED is proposing to introduce:

Paragraph 30 sets out that an entity, unless it continues to use the equity method shall, on the loss of joint control, measure any interest it retains in a former joint venture at fair value, and recognise in profit and loss any difference between the carrying amount of the interest and its fair value (including any sale proceeds). We are not entirely sure whether this treatment is intended to apply to separate as well as consolidated financial statements, and we think it could be worthwhile for the final standard to deal explicitly with that issue, in order to avoid diversity in practice.

More importantly, and similarly to the general comment made before about whether the changes can be considered in isolation from other major projects, CEBS is of the opinion that the proposed amendment to IAS 39 set out in paragraph C10 of the ED is substantial and pre-empts the discussions on any future standard on financial instruments. Indeed, CEBS wonders on what basis the IASB concluded that 'strategic investments', for which the equity method is considered inappropriate, should be excluded from some of the treatments available in the current IAS 39. Furthermore, we are not convinced that 'strategic investments' in equity instruments, as defined IAS 39 AG3, do fulfill the requirements set out in IAS 39.9 to be classified as 'held for trading'.

The preceding comments have been coordinated by CEBS's Expert Group on Financial Information (EGFI) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Mr. Patrick Amis of the French Commission Bancaire.

If you have any questions regarding our comments, please feel free to contact Mr. Arnoud Vossen, the Chairman of the EGFI (+44.207.382.1792) or Mr. Patrick Amis (+ 33.1.4292.6032).

Yours sincerely



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