DUTCH ACCOUNTING STANDARDS BOARD (DASB)

RAAD VOOR DE JAARVERSLAGGEVING

Secretariat: A.J. Ernststraat 55
Postbox 7984
1008 AD Amsterdam
The Netherlands

T +31 (0)20 301 03 91
F +31 (0)20 301 02 79
rj@rjnet.nl
www.rjnet.nl

EFRAG
Attn. EFRAG Technical Expert Group
41, Avenue des Arts
B-1040 Brussels
Belgique

Our ref : AdK
Date : Amsterdam, 7 January 2008
Re : Comment on Exposure Draft Of Proposed Improvements To International Financial Reporting Standards

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your draft comment letter on Exposure Draft Of Proposed Improvements to International Financial Reporting Standards.

We believe the annual improvements process in its current form does not meet the objective as stated in the introduction of the Exposure Draft. The objective of the improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs.

Firstly, the annual improvements project includes not only minor proposed amendments, but also amendments which are likely to result in significant changes. Therefore, in dealing with (necessary) amendments, the IASB should issue exposure drafts for different issues. We do not support the idea of bringing many changes together in one exposure draft. We also believe that collecting too many proposed amendments to different standards in one exposure draft leads to an inherent risk that issues do not receive the attention they need. Therefore, in dealing with (necessary) amendments, the IASB should issue exposure drafts for different issues. This kind of a due process should not have to be established for minor textual amendments in IFRSs, nor should these minor amendments have to be published for comment.
Secondly, the annual improvements process in its current form will lead to an unnecessary increase in the complexity of the endorsement process by the EU.

Having said that, we agree with the proposed comments in your draft letter. In the annex to this letter we have included our specific answers to your questions and a copy of our response to the IASB.

Of course we would be happy to discuss our reaction with you.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

<u>Annex 1: Response to the invitation to comment on Exposure Draft Of Proposed Improvements To International Financial Reporting Standards</u>

Issue 5: Current/non-current classification of convertible instruments

We agree with your response on issue 5 of amendments to IAS 1, but suggest to add 'or liabilities' in the proposed amendment to IAS 1.60(d) so it refers to 'transfer of cash, other benefits <u>or liabilities</u>'.

Issue 10: Sale of assets held for rental

Question to constituents: EFRAG would particularly welcome your comments on the views expressed on the changes to IAS 7. Is the asymmetry described a concern? EFRAG is concerned about whether it is appropriate to make a change of this kind through the Annual Improvements project. Do you have a view on this issue?

We agree with your draft comment. We consider that an investment in property plant & equipment should be presented as an investing cash flow. Therefore, we do not agree with the proposed amendments to IAS 7. We consider it appropriate to deal with this matter via the Improvements project, as long as the due process is followed.

Issue 19: Government loans with a below-market rate of interest

Questions to constituents: Do you agree that the IASB should be asked to include additional guidance on the issues referred to above? Are there any other situations, concerning the requirement to impute interest on government loans, where in your view application guidance is needed?

We agree with your draft comment. Additional guidance is welcome.

IAS 38 Intangible Assets
Issue 28: Advertising and promotional activities

Question to constituents: The Annual Improvements process is supposed to be used for relatively minor changes in accounting standards; more substantial changes to IFRS should be the subject of standalone amendments projects. We would welcome views as to whether this proposed amendment is a minor amendment. For example, do you believe it will change practice significantly?

We agree with your draft comment. We do not believe this proposed amendment will change practice significantly.

<u>Annex 1: Response to the invitation to comment on Exposure Draft Of Proposed Improvements To International Financial Reporting Standards</u>

IAS 39 Financial Instruments: Recognition and Measurement
Issue 30: Definition of a derivative

Question to constituents: Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

We agree with your draft comment. We believe that this issue should not be dealt with in the Annual Improvements project. We are not convinced that all implications of this new, broader definition of derivatives are fully considered when developing the proposed change.

IAS 40 Investment Property
Issue 35: Property under construction or development for future use as investment property

EFRAG agrees with the IASB‘s assessment that, since the publication of IAS 40, valuation techniques have become more robust and, as a result, there are not the reliability concerns about fair valuing investment property under construction that there once were. EFRAG also agrees that there might be an inconsistency in the accounting for the redevelopment of an existing investment property and the construction or development of a future investment property. However, EFRAG thought (as the IASC thought – see current IAS 40) that existing IFRS currently prohibits the revaluation of assets under construction and therefore it would seem that the proposed amendment would not achieve the accounting desired by the IASB.

As the IASB has a different view, there appears to be a need for some form of formal clarification of this point. EFRAG is under the impression that such an amendment would be a change to the wide understanding of accounting for assets under construction and is therefore not sure that this should be part of the annual improvement project.

Question to constituents: EFRAG would particularly welcome your comments on the views expressed on the possibility to revalue assets under construction under IAS 16. Do you believe that such a possible change of substance should be part of the annual improvement project?

We agree with your draft comment. The DASB is of the opinion that the normal due process has to be followed when changing the scope of a standard.

Annex 2: Response to the IASB

DUTCH ACCOUNTING STANDARDS BOARD (DASB)

RAAD VOOR DE JAARVERSLAGGEVING

Secretariat: A.J. Ernststraat 55
Postbox 7984
1008 AD Amsterdam
The Netherlands

T +31 (0)20 301 03 91
F +31 (0)20 301 02 79
rj@rjnet.nl
www.rjnet.nl

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

Our ref : AdK
Date : 7 January 2008
Re : Comment on Exposure Draft Of Proposed Improvements to International Financial Reporting Standards

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your Exposure Draft of Proposed Improvements to International Financial Reporting Standards.

We believe the Annual Improvements project in its current form does not meet the objective as stated in the introduction of the Exposure Draft. The objective of the improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs. The annual improvements project includes not only minor proposed amendments, but also amendments which are likely to result in significant changes. We also believe that collecting to many proposed amendments to different standards in one exposure draft leads to an inherent risk that issues do not receive the attention they need. Therefore, in dealing with (necessary) amendments, the IASB should issue exposure drafts for different issues. We do not support the idea of bringing many changes together in one exposure draft. However, this kind of a due process should not have to be established for minor textual amendments in IFRSs, nor should these amendments have to be published for comment.

A separate due process should have been arranged in dealing with the following proposals:

Topic 4
In Topic 4 the IASB proposes to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs. We believe that it is important for entities to disclose in their financial statements the accounting policies that have been

used to prepare those financial statements in sufficient detail to enable users to understand the policies that have been used. We believe that the disclosure requirements of IAS 1 together with the requirement of IAS 8.30 and 31 should enable the users to understand the policies. Therefore, the DASB believes there is no need for the proposed amendments. Also, when the proposed amendments are endorsed in the EU, IFRS will in substance bypass any endorsement process after that date, because a disclosure on deviations from IFRS would have to be disclosed. We therefore think that the issue has too much impact and should be dealt with separately and not within the Annual Improvements project.

Topic 30
In Topic 30 the IASB proposes to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract.
We believe that this issue should not be dealt with in the Annual Improvements project. We are not convinced that all implications of this new, broader definition of derivatives are fully considered when developing the proposed change.

Topic 35
In Topic 35, the IASB proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. These proposed amendments could be useful, but are also too far-reaching to deal with in the Annual Improvements project. The DASB is of the opinion that this should not be dealt with in the Annual Improvements project.

The annex to this letter contains our detailed reaction to the questions set out in the exposure draft.

We would be happy to discuss our reaction with you.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Annex 2: Response to the IASB
Annex: response to the invitation to comment on proposed improvements

Question 1
Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

Yes, we agree.

Question 2
Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

Yes, we agree.

Question 3
The Board proposes to amend paragraph IG13 of the guidance on implementing IFRS 7 Financial Instruments: Disclosures to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?

Yes, we agree.

Question 4
Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

No, we do not agree.
We believe that it is important for entities to disclose in their financial statements the accounting policies that have been used to prepare those financial statements in sufficient detail to enable users to understand the policies that have been used. We believe that the disclosure requirements of IAS 1 together with the requirement of IAS 8.30 and 31 should enable the users to understand the policies. If in practice the disclosure requirement of IAS 8.30 and 31 are not being sufficiently disclosed, the disclosure requirement of these two paragraphs would have to be enhanced. The DASB believes there is no need for the proposed amendment.

When the proposed amendments will be endorsed, IFRS will in substance bypass any endorsement process after that date, because a disclosure on deviations from IFRS would have to be disclosed. We therefore think that the issue has too much impact and should be dealt with separately instead of within the Annual Improvements project.

Question 5
Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

Annex 2: Response to the IASB

No, we do not agree, unless the following issue is addressed. One implication of the amendment as currently proposed is that some financial instruments that are not convertible instruments would also no longer be classified as current liabilities. For example, instruments that are settled through the provision of services or the replacement of an obligation with another obligation would always be classified as non-current liabilities under the amended IAS 1.60(d): We think this would be inappropriate for a liability settled through the provision of services, so we suggest amending IAS 1.60(d) so it refers to 'transfer of cash and other benefits' rather than 'cash or other assets'.

Question 6
Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

No, we do not agree, unless the following issue is addressed. We do not believe deleting references to IAS 39 in paragraphs 68 and 71 is sufficient to resolve the issue. We suggest that the IASB should add the following text:

'However financial assets and financial liabilities that are required to be classified as held-for-trading in accordance with IAS 39, that have a maturity of more than twelve months and are expected to be held for at least twelve months (for example derivatives or obligations to deliver financial assets borrowed by a short seller) should be presented as non-current financial assets or non-current financial liabilities.'

We think a similar inconsistency arises in respect of obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sells financial assets it has borrowed and does not yet own) which are required to be classified as held-for-trading under IAS 39 even though such contracts might have maturity longer than 12 months.

Question 7
Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

Yes, we agree.

Question 8
Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

Yes, we agree.

Question 9
Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

Yes, we agree.

Question 10
Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

No, we do not agree with the proposed amendments regarding the cash flow presentation. The cash flows related to investments in assets held for rental could initially be recognised as investment cash flows.

We agree partly with the proposed amendments to paragraph 68 of IAS 16. However, we question whether a reclassification of assets from IAS 16 to IAS 2 should be limited to assets held for rental. It may be possible that it provides more useful information if any other PPE will be sold as part of its company's routine, that it reclassifies such assets and deal with the sale via the use of IAS 18.

Question 11
Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

Yes, we agree.

Question 12
Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

No, we do not agree, unless the following issue is addressed. We are concerned that the proposed wording (Contingent rent shall be recognised as an expense in the periods in which it is incurred) could allow entities to structure lease arrangements so that significant parts of the actual payments are classified as contingent (although virtually certain) and are as a result not recognised as an expense until the end of the agreement. We therefore suggest refining the drafting to prevent such structuring opportunities arising. For example, it could require the substance of the contingency to be considered.

Question 13
Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

Yes, we agree.

<u>Annex 2: Response to the IASB</u>

Question 14(a)
Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

Yes, we agree.

Question 14(b)
Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements.'? If not, why?

Yes, we agree.

Question 15
Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

Yes, we agree.

Question 16
Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

Yes, we agree.

Question 17
Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

Yes, we agree.

Question 18
Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

Yes, we agree.

Annex 2: Response to the IASB

Question 19
Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

Yes, we agree.

Question 20
Do you agree with the proposal to amend paragraph 6 of IAS 23 to refer to the guidance in IAS 39 Financial Instruments: Recognition and Measurement relating to effective interest rate when describing the components of borrowing costs? If not, why?

Yes, we agree.

Question 21
Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

Yes, we agree.

Question 22
Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes, we agree.

Question 23
Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

Yes, we agree.

Question 24
Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

Yes, we agree.

Annex 2: Response to the IASB

Question 25
Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Yes, we agree.

Question 26
Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

Yes, we agree.

Question 27
Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

Yes, we agree.

Question 28(a)
Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

Yes, we agree.

Question 28(b)
Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

Yes, we agree.

Question 29
Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

Yes, we agree.

Annex 2: Response to the IASB

Question 30
Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

No, we do not agree. We believe that this issue should not be dealt with in the Annual Improvements project. We are not convinced that all implications of this new, broader definition of derivatives are fully considered when developing the proposed change.

Question 31(a)
Do you agree with the proposal to amend IAS 39 to clarify the definitions of a financial instrument classified as held for trading? If not, why?

Yes, we agree.

Question 31(b)
Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

Yes, we agree.

Question 32
Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

Yes, we agree.

Question 33
Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 should be used, when applicable, to remeasure the financial instrument in accordance with paragraph AG8? If not, why?

Yes, we agree.

Question 34
Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

Yes, we agree.

Annex 2: Response to the IASB

Question 35
The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

No, we do not agree. The proposed amendments could be useful, but are too far-reaching to deal with in the Annual Improvements Project. The DASB is of the opinion that the normal due process has to be followed when changing the scope of a standard.

Question 36
Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

Yes, we agree.

Question 37
Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

Yes, we agree

Question 38
Do you agree with the proposal to replace the terms 'point-of-sale costs' and 'estimated point-of-sale costs' in IAS 41 with 'costs to sell'? If not, why?

Question 39
Do you agree with the proposed amendment to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

Question 40
Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41? If not, why?

Question 41
Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

We have no comments on the amendments to IAS 41.