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Dear Tricia

Exposure Draft of proposed Improvements to International Financial Reporting Standards

The ASB is responding to the Exposure Draft of proposed Improvements to International Financial Reporting Standards. The ASB's responses to Questions 1 and 3 set out in the exposure draft are set out in Appendix to this letter.

On Question 2 regarding the proposed transitional provisions and effective date of the amendments, the ASB agrees with what is proposed in the exposure draft except for IAS 38 'Intangible Assets'. We do not support the proposal of staggering the effective dates in IAS 38: 1 July 2009 and 1 January 2010. It is our view that this proposal makes applying the Standard unnecessarily complicated and could lead to diversity in practice. Accordingly, one effective date should apply to all the proposed amendments.

Should you have an queries regarding our response please contact me or Mario Abela, Project Director, on 020 7492 2442 or by email m.abela@frc-asb.org.uk.

Yours sincerely

Ian

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Appendix – Responses to individual questions

Improvement Number 1

IFRS 2 – Scope of IFRS 2 and Revised IFRS 3

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB agrees with the proposal to exclude joint ventures and common control transactions from the scope of IFRS 2. However, it remains unclear whether IFRS 2 applies to transactions where an entity obtain significant influence or already has control and acquires a non-controlling interest. It is our view that the Standard does apply in these circumstances (as there is no specific exemption) and it would be helpful if that was clarified as part of the proposed amendment.

Improvement Number 2

Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: While the ASB broadly supports the IASB's intention to clarify the disclosure requirements of non-current assets held for sale and discontinued operations, it is not clear that the proposed amendments adequately achieve that end. We would suggest that to clarify the nature of the disclosures required it would be helpful to: • specify what information about this class of assets is deemed to be useful for decision-making and why; and • delete the reference to IAS 1 (other than perhaps in the 'Basis for Conclusions'), as it has the potential to confuse those trying to interpret the requirements of the Standard. The proposed cross-reference introduces a rather ambiguous statement about compliance with IAS 1: that satisfaction of fair presentation of discontinued operations *may* warrant separate disclosure – but it offers no guidance on how preparers might arrive at such a judgement. It is also unclear how this statement sits alongside the general presentation principles outlined in IAS 1. If the point needs to be made, our view is that the cross-reference to IAS 1 is more appropriately situated after paragraph 30 presentation and disclosure' rather than as part of the 'scope' of the Standard. On a point of drafting, it would appear redundant to state in a Standard that "disclosures in other IFRSs do not apply to such assets unless those IFRSs specifically require disclosures…" a more appropriate construction might be "the disclosure requirements of this IFRS , along with specific requirements in other IFRSs, provide useful information to enable users to evaluate the financial effects of discontinued operations…"

Improvement Number 3

IFRS 8 – Disclosure of information about segment assets

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB supports the proposed clarification to disclosure of information about segment assets under IFRS 8. We would suggest that the 'Basis to Conclusions' should be presented in such as way as to enable readers to understand the historical development of the Standard. The proposed amendments do not convey the potential point of difference with SFAS 131 in how the IFRS has been interpreted. Spelling that out is likely to be helpful to those applying the Standard.

Improvement Number 4

IAS 7 – Classification of expenditures on unrecognised assets

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB agrees with the intent of the proposed amendment to IAS 7 which is, in our view, consistent with the definition of "investing activities" in paragraph 6 of the Standard. We note that IAS 7 was amended in May 2008 to clarify that "cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale…are cash flows from operating activities" (paragraph 14). It would seem there is a conflict between the requirements of paragraphs 14 (classify some assets as 'operating') and 16 (classify all assets as 'investing'). Accordingly, these two requirements need to be made consistent perhaps by inserting at paragraph 16 "…other than for those assets to which paragraphs 14 and 15 apply".

Improvement Number 5

IAS 18 – Determining whether an entity is acting as a principal or as an agent

IASB questions:
Question 1 Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose? **Question 3 (specific to IAS 18)** The Board proposes to include in the Appendix of IAS 18 'Revenue' guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?
Proposed ASB response: The ASB supports the proposed amendment to the Appendix of IAS 18. It is our view, that the discussion of the principal/agent relationship, whilst consistent in principle, is more comprehensively dealt with under FRS 5 'Reporting the Substance of Transactions'. Given the IASB has indicated that its intention is to provide "high level" guidance on this issue, FRS 5, in our view, offers a better principle-based model than EITF 99-19). What is proposed in the ED appears to be a hybrid of FRS 5 and EITF 99-19. We also note that an IFRIC member indicated that divergent accounting treatments arise in practice depending on which existing guidance is followed. Accordingly, some discussion in the 'Basis for Conclusions' that makes: (a) the sources of the guidance clear and (b) a statement about the commonality of the principles that underlie them may help minimise the potential gaming between guidance that may occur in practice. We believe that this clarification is necessary given the issue is not dealt with in the body of the Standard.

Improvement Number 6

IAS 36 – Unit of accounting for goodwill impairment

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB agrees that the impairment testing of goodwill under IAS 36 should be determined in accordance with paragraph 5 of IFRS 8 (which defines an operating segment). It may perhaps be helpful to explain in the 'Basis for Conclusions' that in addition to the points already proposed, the aggregation provision in IFRS 8 relates to presentation (or reporting) and is, therefore, not relevant to determining the cash generating unit for the purposes of impairment testing goodwill under IAS 36 (which is concerned with recognition and measurement).

Improvement Number 7

IAS 38 – Recognition and Measurement of Intangibles

IASB question: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB generally supports the intention of the IASB to clarify the recognition and measurement requirements of IAS 38. It is not clear to us that the proposed changes to paragraph 36 are particularly helpful in establishing when an intangible asset acquired as part of a business combination is separable. In reading the proposed amendment, along with the guidance in IE23-31 of IFRS 3 'Business Combinations', we have a specific concern about how the proposed wording in paragraph 36 will be applied to customer relationships (especially those that are not contractually based at the time of acquisition). We have some difficulty in identifying an asset, which is separable from the goodwill of the entity, for these relationships (consistent with the guidance provided at paragraph 11 of the standard). They would appear to be more an indicator of custom, embedded within goodwill, than a separate identifiable stream of future economic benefits. Accordingly, we would recommend that the IASB provides further guidance in paragraph 36 to explain the principle of 'separability'. This is important as the illustrative examples to IFRS 3 do not form part of that standard and the key requirements for the recognition and measurement of intangible assets are located in IAS 38. We also have some concerns with the construction of the proposed amendments to paragraph 41: • The use of the word "hypothetical" could be interpreted as implying that the estimates determined need not be done so reliably or without due regard to verifiable evidence. We would prefer the word is removed from the sentence as it is not altogether clear that the costs avoided would be "hypothetical" – the rationale for holding an asset is a demonstrable economic benefit (ie consistent with the definition of an asset under the *Framework*); and • The function of "and" between paragraph 41 (a) and (b), taken literally, does not achieve the intended outcome. As currently drafted, the example states that an entity can measure the asset at: (a) the costs avoided <u>and</u> (b) the present value for net cash flows. The implication of this is discounting only applies to the cash flows derived under (b)

whereas we would argue that all future cash flows should be discounted to their present value. This would appear to be consistent with the IASBs overall objective to approximate a fair value.

Improvement Number 8

IAS 39 – Financial Instruments: Recognition and Measurement

IASB questions: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
Proposed ASB response: The ASB agrees with the proposed amendments to IAS 39. However, we have specific comments on amendment 8(d) below. We are concerned that the amendment to AG33 introduces a new phrase "integral to the arrangement" – in discussing whether the 'closely related' test is met. If this phrase is considered helpful in explaining what 'closely related' means – and we think it is – it should be used more generally than the one specific example in AG33. Otherwise it would appear that it only applies to this example, and that elsewhere 'closely related' is not synonymous with 'integral to the arrangement'. A related point is that a derivative can be 'closely related' without being 'integral to'. Accordingly, being integral to an arrangement must, logically, be a subset of relationships that are 'closely related' to the host contract. It would be useful to make that point clear in the Standard. We are also not clear what is achieved by the amendment to AG33(d)(iii) as we cannot see how it can be interpreted to mean anything but what is already stated in AG33(d)(i). Accordingly, we would suggest that AG33(d)(iii) be deleted and the references to the notion of 'functional currency' in IAS 21 be instead incorporated into AG33(d)(i). We also believe that the references to paragraph 9 of IAS 21 when explaining the notion of 'functional currency' should be expanded to include paragraphs 10 to 14, as these paragraphs provide additional factors to be considered in determining the functional currency of a foreign operation.