



Accounting Standards Board

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Dear Sirs

Exposure Draft of proposed Improvements to International Financial Reporting Standards

I am writing to give the views of the UK Accounting Standards Board (ASB) on EFRAG's draft comment letter to the exposure draft of proposed Improvements to International Financial Reporting Standards. The ASB is submitting its response to the IASB in parallel to this letter and I attach a copy for your information.

The ASB is generally in agreement with the draft responses to individual questions proposed by EFRAG. A comparison between ASB and EFRAG responses to the IASB questions set out in the exposure draft invitation to comment is contained in appendix one of this letter. Appendix two then explains why the ASB holds a different view to that proposed by EFRAG in its draft comment letter.

Responses to the questions raised by EFRAG in its draft comment letter can be found in Appendix three.

The ASB has highlighted only two amendments that it considers ought to be withdrawn from the improvements process these are Issue 30 – Definition of a derivative and Issue 28 – Advertising and promotional activities. The ASB considers it is only these two amendments that are of such significance that they warrant further research and should be withdrawn from the annual improvements process.

Should you wish to discuss any of the matters raised in this letter please do not hesitate to contact either Michelle Crisp or myself.

Yours sincerely

Ian Mackintosh
Chairman, Accounting Standards Board
DDL: 020 7492 2434

Comparison of ASB and EFRAG responses

No.	Topic	Project Director	Agree	Disagree	Conditional	IASB Alterative view	EFRAG response
1	IFRS 1 - Restructure of IFRS 1	Michelle	X				Agrees amendment
2	IFRS 5 - Plan to sell the controlling interest of a subsidiary	Michelle	X				Agrees amendment
3	IFRS 7 - Presentation of finance costs	Seema	X				Agrees amendment
4	IAS 1 - Statement of compliance with IFRSs	Simon		X		X	Disagrees amendment
5	IAS 1 - Current/non-current classification convertible instruments	Simon			X		Conditional
6	IAS 1 - Current/non-current classification of derivatives	Simon			X		Conditional
7	IAS 8 - Status of implementation guidance	David	X				Agrees amendment
8	IAS 10 - Dividends declared after the end of the reporting period	Alan	X				Agrees amendment
9	IAS 16 - Recoverable amount	Alan	X				Agrees amendment
10	IAS 16 - Sale of assets held for rental	Alan			X		Conditional
11	IAS 17 - Classification of leases of land and buildings	Andrew	X				Agrees amendment

Comparison of ASB and EFRAG responses

No.	Topic	Project Director	Agree	Disagree	Conditional	IASB Alternative view	EFRAG response
12	IAS 17- Contingent rents	Andrew	X				Agrees amendment
13	IAS 18 - Costs of originating a loan	Jennifer	X				Agrees amendment
14	IAS 19 - Curtailments and negative past service costs	Michelle			X		Agrees amendment
15	IAS 19 - Plan administration costs	Michelle	X				Agrees amendment
16	IAS 19 - Replacement of term 'fall due'	Michelle	X				Agrees amendment
17	IAS 19 - Guidance on contingent liabilities	Michelle	X				Agrees amendment
18	IAS 20 - Consistency of terminology with other IFRS	Andrew	X				Agrees amendment
19	IAS 20 - Government loans with a below-market rate of interest	Seema	X				Agrees amendment
20	IAS 23 - Components of borrowing costs	Seema	X				Agrees amendment
21	IAS 27 - Measurement of subsidiary held for sale in separate financial statements	Michelle	X				Agrees amendment

Comparison of ASB and EFRAG responses

No.	Topic	Project Director	Agree	Disagree	Conditional	IASB Alternative view	EFRAG response
22	IAS 28 - Required disclosures when investment in associate are accounted for at fair value through profit and loss account	Michelle	X				Agrees amendment
23	IAS 28 - Impairment of investment in associate	Michelle	X			X	Agrees amendment
24	IAS 29 - Consistency of terminology with other IFRSs	Seema	X				Agrees amendment
25	IAS 31 - Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit and loss account	Michelle	X				Agrees amendment
26	IAS 34 - Earnings per share disclosures in interim financial reports	Peter	X				Agrees amendment
27	IAS 36 - Disclosure of estimates used to determine recoverable amount	Michelle	X				Agrees amendment
28	IAS 38 - Advertising and promotional activities	Michelle		X		X	Agrees amendment
29	IAS 38 - Unit of production method of amortisation	Michelle	X				Agrees amendment
30	IAS 39 - Definition of a derivative	Seema		X			Disagrees

Comparison of ASB and EFRAG responses

No.	Topic	Project Director	Agree	Disagree	Conditional	IASB Alternative view	EFRAG response
31	IAS 39 - Reclassification of financial instruments into or out of the classification of fair value through profit or loss	Seema	X				Agrees amendment
32	IAS 39 - Designating and documenting hedges at the segment level	Seema			X		Agrees amendment
33	IAS 39 - Applicable effective interest rate on cessation of fair value hedge accounting	Seema	X				Agrees amendment
34	IAS 39 - Treating loan prepayment penalties as closely related embedded derivatives	Seema	X				Agrees amendment
35	IAS 40 - Property under construction or development for future sales as investment property	Alan	X				Conditional
36	IAS 40 - Consistency of terminology with IAS 8	Alan	X				Agrees amendment
37	IAS 40 - Investment property held under lease	Simon	X				Agrees amendment
38	IAS 41 - Point-of-sale costs	Jennifer		X			Disagrees
39	IAS 41 - Discount rate for fair value calculations	Jennifer	X				Agrees amendment
40	IAS 41 - Additional biological transformation	Jennifer			X		Conditional
41	IAS 41 - Examples of agricultural produce and products	Jennifer	X				Agrees amendment

Review of EFRAG and ASB differing responses

Amendment 14 – Curtailments and negative past service costs

1. In relation to amendment 14, whereas EFRAG agrees with the proposed amendment the ASB questions the proposal. This is because the amendment proposes that when a plan amendment reduces benefits for future service, the reduction in relation to future service is a curtailment and any reductions relating to past service is a negative past service cost. The ASB response notes that liabilities are only recognised for past service and not for future service.

Amendment 28 - Advertising and promotional activities

2. In its draft response, EFRAG agrees with the proposal in the exposure draft to expense advertising and promotional activities when incurred. The ASB has noted that there is considerable diversity in opinions regarding this proposed amendment. As a consequence, the ASB recommends that IFRIC are asked to conduct greater research into the topic and that the proposed improvement is removed from the annual improvements process.

Amendment 32 – Designating and documenting hedges at the segment level

3. In its draft responses EFRAG agrees with the proposal. The ASB questions this amendment. If the intention of the amendment is to prohibit inter-segment hedging the ASB does not support the proposed amendment. However, if the intention of the amendment is to clarify that IFRS 8 requires disclosure of information that is reported to the chief operating officer and therefore inter-segment hedging may not be reported then the ASB is in agreement with the proposed amendment. The ASB considers that the IASB should clarify this matter.

Amendment 35 – Property under construction or development for future sales as investment property

4. EFRAG, in its draft response accepts the need for clarification regarding whether property under construction should be accounted for in accordance with IAS 16 Property, Plant and Equipment or IAS 40 Investment Property. EFRAG however considers the proposal to include such property in IAS 40 a significant change to existing practice that should be removed from the annual improvements process. In contrast, the ASB accepts the proposed amendment. The ASB has not received feedback from constituents on this matter.

Response to EFRAG questions for constituents

Issue 10 - Sale of assets held for rental

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?

1. The ASB response to issue 10 is set out in its response to the IASB, attached to this letter. The ASB notes some diversity in views regarding the consequential amendment to IAS 7. The contrasting views are:
 - a. the disposal proceeds should be shown as part of investing activities, as the purchase of the original asset is part of investing activities; or
 - b. the proceeds from disposal are part of revenue so the cash flows should be included in operating activities along with other revenue sources.
2. The ASB considers that view (a) is preferable. The ASB does not consider that this proposed amendment is of such significance that it should not be dealt with through the annual improvements process.

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

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?

3. The ASB is generally in agreement with the proposed amendment and does not consider additional guidance is required. The ASB has however noted in its response to the IASB that the proposed amendment does not address the benefit a holder would derive from financial guarantee contracts issued by a government for which a below market price is charged.

Issue 28 - Advertising and promotional activities

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 amendment project. We would welcome views as to whether this proposed amendment is a minor amendment. For example, do you believe it will change practice significantly?

4. The ASB is of the view that this proposed amendment should be withdrawn from the annual improvements process given the potential affect this proposed amendment may have. The ASB notes that the IASB considered the proposed amendment on three separate occasions and this was after the IFRIC had also spent time considering the topic. The ASB considers that this level of debate provides evidence that the improvement is more substantial and should be addressed outside the annual improvements process.
5. In its response the ASB is proposing that the IASB considers asking IFRIC to undertake further research, with constituents, regarding the treatment of these costs.

Issue 30 – Definition of a derivative

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?

6. In its response to the IASB the ASB notes that it considers further research should be undertaken before this amendment proceeds. The ASB considers that this amendment should be withdrawn from the annual improvements process due to its potential significance.

Issue 35 – Property under construction or development for future use as investment property

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 improvements project?

7. In its response to the IASB the ASB has accepted this proposed amendment. The ASB notes the proposed amendment should ensure consistency in terms of accounting for (i) the construction or development of a future investment property (currently in accordance with IAS 16); and (ii) the redevelopment of an existing investment property (in accordance with IAS 40).
8. The ASB does not consider that this proposed amendment is of such significance that it should not be dealt with through the annual improvements process.