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Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

10 January 2008

Dear Sirs

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 (IFRS). The ASB's responses to the questions set out in the invitation to comment section of the exposure draft are contained in Appendix to this letter.

The ASB would first like to state that it supports the IASB in introducing the annual improvements process as a way of enabling matters of clarification or conflicts between IFRSs to be resolved in a quick and efficient manner.

In developing the responses to the individual amendments the ASB formed the view that two of the proposed amendments should be withdrawn from the annual improvements process and be subject to separate due process. The ASB considers these amendments should be removed because, although the proposed amendments to the text of the standard are minor, the potential effect of the amendment could be significant. The two amendments it considers should be withdrawn are:

1. the proposed amendment to IAS 39 'Definition of a derivative'. The ASB considers that changing the definition of a derivative could have unintended consequences and that the IASB should conduct further research into the possible implications that arise from this proposal; and

2. the proposed amendment to IAS 38 'Intangible Assets'. In addition to the significant effect that is likely to arise from this amendment the ASB found it difficult to determine how the Framework was being applied.

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Finally the ASB notes that a number of the proposed amendments seek to clarify matters in the Standards themselves. In a number of circumstances the ASB considers that the proposed amendment does not provide the level of clarity required, for example improvement numbers, 5, 6, and 10.

Should you have any queries on the issues raised in this letter please do not hesitate to contact me or Michelle Crisp on 020 7492 2432.

Yours sincerely

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Appendix – Responses to individual questions

Improvement Number 1

IFRS 1 – Restructure of IFRS 1

IASB question: *Do you agree with the Board's proposed restructure of IFRS 1? If not, why?*
ASB response: The ASB agrees with the proposal to restructure and remove redundant references from IFRS 1. The ASB also supports reformatting the IFRS such that it is easy to update.

Improvement Number 2

IFRS 5 - Plan to sell the controlling interest in a subsidiary

IASB question: *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 not?*
ASB response: The ASB agrees that the proposal to add paragraph 8A to clarify an entity that is committed to a sale plan involving the loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. Although the ASB is in agreement with this amendment it also notes that many users and preparers express a level of dissatisfaction with IFRS 5. The ASB also notes that the IFRS requires reclassifications that do not always enhance the faithful representation of financial statements. In the ASB's view, the IASB should review the requirements of IFRS 5 once it has completed the financial statements presentation project.

Improvement Number 3

IFRS 7 – Presentation of finance costs

IASB question: *The Board proposes to amend paragraph IG 13 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?*
ASB response: The ASB agrees that the proposed amendment removes a potential conflict between two standards and it supports its publication on those grounds. The ASB notes that the amendment is only to the implementation guidance to IFRS 7 (which is not part of the standard).

Improvement Number 4

IAS 1 – Statement of compliance with IFRSs

IASB question: *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?*
ASB response: The ASB fully supports the aim of ensuring that there is clarity between those entities that adopt full IFRSs and those that do not. However, we do not think that this proposed amendment is the best way of achieving this aim. Firstly, we consider that this is more an issue for regulators than standard setters to address. We are not sure that the IASB has jurisdiction over financial statements that are not prepared in accordance with IFRSs – we agree that the IASB can require an entity that complies with IFRSs to make an explicit and unreserved statement, but we are not sure that the IASB can require an entity that does not comply with IFRSs to make a statement of non-compliance. Secondly, whilst eventual convergence to identical standards is the ideal aim,

for many jurisdictions this must be seen as a gradual process rather than 'flipping a switch'. If the first steps to convergence bring with them a need for lengthy disclosures of differences from full IFRSs, this will act as a brake on convergence. Of course, entities (and jurisdictions) could simply avoid this by not requiring compliance with IAS 1(16A), but the need to do this would itself introduce a 'pick and choose' approach to convergence.

Thirdly, there is an issue of timing. Many jurisdictions need time for their formal adoption of new and amended IFRSs, and entities within those jurisdictions may be unable to adopt changes at the same time as the IASB's effective date and will as a result have to provide this additional information. Since this would apply only in years where there was a delay in adopting a change to IFRS, the need for additional disclosure may arise on an irregular basis.

Fourthly, we think that the drafting is unclear. This is in part due to the fact that IAS 1 defines IFRSs as the individual standards and interpretations rather than the whole body of 'IFRS GAAP'. As a result, it seems that any reference by an entity to one or more IFRSs in its basis for preparing its financial statements leads to the need for it to explain the effects of full compliance. This may lead to entities that do not adopt IFRS as a whole from avoiding otherwise helpful references to individual standards. In this context, we believe that it is helpful for converged standards to adopt the equivalent IFRS title; if this is interpreted as a 'reference to IFRSs' this would impose an unnecessary burden. We also consider that paragraph 16A is unclear as to the level of description required by the disclosure. When the ASB reviewed the disclosure it considered that a narrative assessment of the differences would be sufficient. A number of the ASB constituents suggested that the proposals require a numeric quantification of the differences. The ASB therefore considers that the IASB should clarify the disclosures that are being proposed.

Finally, we are not sure what 16A(b) adds; 16A(a) requires all differences to be described, and this will include those differences that affect the financial position and performance.

Improvement Number 5

IAS 1 – Current/non-current classification of convertible instruments

IASB question:

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?

ASB response:

The ASB agrees that in general the potential settlement of a liability by the issue of equity is not relevant to its classification as current. However, in the special case of a liability that is settled by the issue of a variable number of shares (as described in paragraph 21 of IAS 32) we consider that the classification as current should depend on the due date for settlement. Furthermore, obligations with other forms of settlement – for example, by the provision of services or in exchange for another obligation – do not appear to be covered by the proposed amended wording and would not be classified as current. We therefore do not agree with the amendment as drafted and consider that the amendment should clarify that in the special case identified above; the classification should depend on the due date for settlement.

Improvement Number 6

IAS 1 – Current/non-current classification of derivatives

IASB question:

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 held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

ASB response:

The ASB agrees with the IASB's view that the classification of financial liabilities should be in accordance with paragraph 69 of IAS 1. However, deletion of the example in paragraph 71 merely raises the question "if a financial instrument is classified as held for trading under IAS 39, how does it not meet the definition of 'held primarily for the purposes of trading' in paragraph 69(b) of IAS 1?". The answer seems to us to be that the label 'held for trading' in IAS 39 is misleading, since it includes derivatives that are not themselves held for trading, although their underlying risks may be; and we would therefore propose that the definition of 'financial asset or financial liability at fair value through profit or loss' in IAS 39 is reordered so that derivatives are a separate part of this definition rather than a sub-category of 'held for trading'.

Improvement Number 7

IAS 8 – Status of Implementation Guidance

IASB question:

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

ASB response:

The ASB view is that the existing wording in IAS 8 is acceptable, but accepts that the proposed amendment puts beyond doubt the status of Implementation Guidance. The ASB therefore agrees with the proposed amendment.

Improvement Number 8

IAS 10 – Dividends declared after the end of the reporting period

IASB question:

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?

ASB response:

The ASB accepts the IASB concern that some may read the current wording used in paragraph 13 of IAS 10 as implying that a liability should be recognised for dividends not declared until after the balance sheet date *if there is an established pattern of paying a dividend.* This is clearly not the intention of IAS 10, therefore the ASB agrees with the proposed amendment.

Improvement Number 9

IAS 16 – Recoverable amount

IASB question: *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?*
ASB response: The ASB agrees with the proposed amendment.

Improvement Number 10

IAS 16 – Sale of assets held for rental

IASB question: *Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?*
ASB response: The ASB agrees with this proposed clarification to IAS 16 - that once assets that have been held for rental to others cease to be rented, and are instead held for sale, they should be transferred to current assets (or inventories using IASB terminology), with the proceeds from the sale of such assets being recognised as revenue. In the context of IAS 16, this is viewed as a helpful clarification, particularly as paragraph 68 of IAS 16 states that gains should not be recognised as revenue. The ASB also consider the proposed clarification to IAS 7 helpful (in making clear that cash proceeds from sales of rental assets now held for sale should form part of the cash flows of an entity's operating activities). The ASB however disagrees with the proposed amendment for "cash payments to manufacture or acquire assets held for rental to others and subsequently held for resale". The ASB is of the view that the cash flows relate to assets originally acquired as part of property plant and equipment. The operating cash flows arise from rental of these assets. Acquisition and disposal should be part of investing activities.

Improvement Number 11

IAS 17 – Classification of leases and land and buildings

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment. It is clear there may be little economic difference between the holding of a very long lease of land and ownership of the freehold, even if title does not pass to the lessee. In such a case classification as finance lease is appropriate.

The ASB considers that the IASB should make clear in the basis of conclusions to the proposed amendment that this amendment reverses the IFRIC view set out in the March 2006 IFRIC Update:

> *… Consequently a lease of land, irrespective of the lease term, is classified as an operating lease unless title is expected to pass to the lessee or significant risks and rewards associated with the land at the end of the lease term pass to the lessee.*

Improvement Number 12

IAS 17 – Contingent rents

IASB question: *Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?*
ASB response: The ASB agrees with the proposed amendment. The ASB wishes, however, to raise the matter of 'opportunities for entities to structure' lease payments. The ASB is concerned that lease payments may be structured such that significant parts of the lease payments are classified as 'contingent' (although in reality certain). In which circumstance, an entity would recognise an expense only when contingent rents are incurred. The ASB also suggests it might be helpful if the meaning of 'incurred' in paragraph 33 of IAS 17 was clarified. The ASB is concerned that some may interpret 'incurred' as meaning that if a rental is increased upwards as a result of a contingent event, all of the extra amount to be paid over the remainder of the lease term would have to be expensed in one go at the point where the upward expense was triggered. An alternative interpretation would be that the expense should be spread over the remaining lease term.

Improvement Number 13

IAS 18 – Costs of originating a loan

IASB question: *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 be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?*
ASB response: The ASB agrees with the amendment in paragraph 14 (a) (i) changing 'direct costs' to 'transaction costs' (as defined by IAS 39). However we would note that paragraph 14 (a) (ii) and 14 (a) (iii) in the appendix to IAS 18 also refer to 'related direct costs' and 'related direct costs incurred'. Hence to achieve consistency, we would suggest amending these paragraphs too.

Improvement Number 14

IAS 19 - Curtailments and negative past service costs

IASB question:

(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 a negative past service cost? If not, why not?*

(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?*

ASB response:

The ASB notes that the IASB explains in paragraph BC 8 that it is also addressing this matter as part of phase 1 of the post-employment benefits project.

IAS 19 requires past service cost to be recognised over the average remaining period until vesting. The proposed amendment seems to draw a distinction between a plan amendment that reduce benefits for future service and those reducing benefits for past services. The ASB notes, however, liabilities are recognised only for past services obligations not for future service. It therefore questions the proposed amendment. The ASB considers that it would be better to await the outcome of phase I of the post employment project before amending the standard itself.

In relation to the amendment to paragraph 111, the ASB is concerned with the deletion of the sentence regarding the definition of a material curtailment. This could lead to entities having to treat 'smaller' non-material business disposals as a curtailment. The ASB, also, questions why the IASB is replacing the word material with significant in paragraphs 111(a) and 111(b). The ASB is of the view that significant, unlike material, is not a defined term in IFRS.

Improvement Number 15

IAS 19 - Plan administration costs

IASB question: *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 not?*
ASB response: The ASB agrees with the proposal to avoid the double counting of such costs, however, the ASB also notes that paragraph 107 of IAS 19 states that in determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumption used to measure the obligation.

Improvement Number 16

IAS 19 - Replacement of the term falling due

IASB question: *Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definition of short-term employee benefits and other long-term employee benefits? If not, why?*
ASB response: The ASB agrees with the proposed amendment but recommends an example of such an incidence is provided to clarify the issue.

Improvement Number 17

IAS 19 - Guidance on contingent liabilities

IASB question:

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

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 18

IAS 20 – Consistency of terminology with other IFRSs

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 19

IAS 20 – Government loans with a below-market rate of interest

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment. The ASB notes 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.

Improvement Number 20

IAS 23 – Components of borrowing costs

IASB question: *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?*
ASB response: The ASB agrees with this proposed amendment.

Improvement Number 21

IAS 27 – Measurement of a subsidiary held for sale in separate financial statements

IASB question: *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?*
ASB response: The ASB supports the IASB's decision to provide clarification on this matter. It is however of the view that the proposed amendment does not clarify how IAS 39 applies but clarifies that subsidiaries carried at cost are not exempt from the requirements of IFRS 5. The ASB considers that further clarification is required such that a further sentence is added to state that investments carried in accordance with IAS 39 are not subject to the measurement provisions of IFRS 5.

Improvement Number 22

IAS 28 – Required disclosures when investments in associates are accounted for at fair value through profit and loss.

IASB question: *Do you agree with the proposal to clarify the disclosures required for 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 the profit or loss? If not, why?*
ASB response: In general the ASB is in agreement that entities that are permitted to account for associates or joint ventures in accordance with IAS 39 and therefore outside the scope of the IAS 28 should not be required to make disclosures in accordance with that standard. The ASB is therefore concerned that the proposed amendment to IAS 28 seeks to require the disclosures from paragraph 37(f) of the standard. This appears to be adding additional disclosure requirements. The ASB considers a more principle based approach should be required. There are clearly a number of disclosures in IAS 28 that may be applicable and it seems inappropriate to apply only one such disclosure.

Improvement Number 23

IAS 28 - Impairment of investment in associate

IASB question: *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?*
ASB response: The ASB agrees with the proposal to clarify that impairment charges are not allocated to any goodwill that is implicit in an investment in an associate and accordingly, reversal of any impairment charges can be recognised if the value of an investment subsequently increases.

However, the ASB notes that some constituents were confused by the question asked in the exposure draft since the question notes that the purpose of the amendment was to *clarify the circumstances in which an impairment charge against an investment in an associate should be reversed*, and this objective does not seem to have been achieved by the amendment. Instead the amendment clarifies that impairment charges are not allocated to any goodwill that is implicit in the carrying value of an investment in associate.

Improvement Number 24

IAS 29 – Consistency of terminology with other IFRSs

IASB question: *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?*
ASB response: The ASB agrees with the proposed amendment.

Improvement Number 25

IAS 31 – Required disclosures when interest in jointly controlled entities are accounted for at fair value through profit and loss.

IASB question: *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 the profit or loss? If not, why?*
ASB response: In general the ASB is in agreement that entities that are permitted to account for associates or joint ventures in accordance with IAS 39 and are therefore outside the scope of the IAS 28 or IAS 31 should not be required to make disclosures in accordance with those standards.

The ASB is therefore concerned that the proposed amendment to IAS 31 which seeks to require the disclosures from paragraphs 55 and 56 of the standard appears to be adding additional disclosure requirements. The ASB considers a more principles based approach should be required. There are clearly a number of disclosures in IAS 31 that may be applicable and it seems inappropriate to apply only one such disclosure.

Improvement Number 26

IAS 34 – Interim Financial Reporting

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 27

IAS 36 – Disclosure of estimates used to determine recoverable amount

IASB question:

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 vale less cost to sell? If not, why?

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 28

IAS 38 – Advertising and Promotional Activities

IASB 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?

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

ASB response:

As set out in the covering letter the ASB does not consider this amendment should be addressed through the annual improvements process given the potential affect it may have. The ASB considers that the amendment should be subject to separate due process ensuring the views of constituents are fully deliberated.

The reason why the ASB considers that the amendment does not qualify for inclusion in the annual improvements process is because the IFRIC considered the treatment of such expenditure and decided to refer the matter to the IASB. The IFRIC considered the matter on no less than three occasions. The IASB then considered that matter itself on three occasions before proposing the treatment set out in the proposed amendment. The ASB considers that this is evidence itself of the diversity of views and therefore the matter should not be part of the annual improvements process

In addition to not supporting the inclusion of this amendment in the annual improvements process the ASB also notes that it does not support the view of the majority of IASB members that an entity should not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities. The ASB considers that it is difficult to determine how the Framework is being applied to the recognition of an asset.

The ASB would suggest that the IFRIC is asked to take on a project to consider the treatment of advertising and promotional expenditure.

Improvement Number 29

IAS 38 – Unit of production method of amortisation

IASB question: *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?*
ASB response: The ASB is in agreement with the deletion of that last sentence of paragraph 98. The ASB notes that BC 5 states that paragraph 98 is perceived as preventing an operator from using the unit of production method to amortise these assets if they result in a lower amount of accumulated amortisation than under the straight-line method. The ASB is concerned that BC 5 may be interpreted as permitting the unit of production method only where service concession arrangements are in place. The ASB therefore suggests the wording of BC 5 is reviewed to clarify the unit of production method of amortisation may be used, where appropriate, even if it results in a lower amount of accumulated amortisation than does the straight-line method and that service concessions is such an example.

Improvement Number 30

IAS 39 – Definition of a derivative

IASB question:

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?

ASB response:

The ASB is of the opinion, the inclusion of paragraph 2(e) in IAS 39 already ensures that any contracts within the scope of IFRS 4 are excluded from the scope of IAS 39. Furthermore, although the definition of a financial risk in IFRS 4 mirrors the definition of a derivative in IAS 39 the IASB are not proposing to amend that on the grounds that the distinction is relevant in determining whether a contract is an insurance contract. The amendment therefore will retain the status quo for contracts within the scope of IFRS 4.

By contrast the changed definition of a derivative within the scope of IAS 39 will apply to a wider range of contracts and may lead to even more confusion. Examples of areas where such confusion may arise include: royalty schemes where a percentage of the turnover is handed over in royalty; and employee bonus schemes where employees are promised a percentage of the company's profit. On the basis of the analysis provided by the IASB it is not possible to identify if these are likely to meet the definition of an embedded derivative.

The ASB therefore notes that this amendment is likely to impact a wider range of contracts than just those within the scope of IFRS 4. However, the IASB has provided limited analysis on its wider implication thus making it difficult to analyse what will or will not meet the definition of a derivative once the proposed amendment has been finalised.

It would seem that this amendment has wider implications than that expected from an annual improvement. The ASB would, therefore, recommend that further analysis is required before this amendment can be finalised.

Improvement Number 31

IAS 39 – Reclassification of financial instruments into or out of the classification of fair value through profit or loss

IASB question:

Do you agree with the proposal to amend IAS 39 to clarify the definition of a derivative financial instrument classified as held for trading? If not, why?

Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassification into or out of the fare value through profit or loss category? If not, why?

ASB response:

The ASB agrees that the proposed amendment clarifies the definition of a financial instrument at fair value through profit and loss and in particular the position for derivatives that are designated as hedges. However, the ASB considers that as paragraph 50A is a specific exemption to paragraph 50 the paragraphs ought to be combined.

Improvement Number 32

IAS 39 – Designating and documenting hedges at the segment level

IASB question:

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?

ASB response:

The ASB is unclear as to what conflict the amendment to Paragraph 73 of IAS 39 is attempting to remove. The deletions proposed to paragraph 73 appear to prohibit inter-segment hedging on the basis that segments of a business are not independent of each other and therefore do not qualify as a 'party external to the reporting entity'.

The ASB believes that inter-segment hedging at a segment level is legitimate and should continue to be allowed under IFRS. If the intention of the amendment is to prohibit inter-segment hedging the ASB does not support this 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.

Improvement Number 33

IAS 39 – Applicable effective interest rate on cessation of fair value hedge accounting

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 34

IAS 39 – Treating loan prepayment penalties as closely related embedded derivatives

IASB question:

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?

ASB response:

The ASB agrees with the proposed amendment.

Improvement Number 35

IAS 40 – Property under construction or development for future use as investment property

IASB question: *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?*
ASB response: The ASB agrees with the proposed amendment. The advantage of the proposal is that it will 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). The reason why the IASC excluded investment property under construction or development from IAS 40 was because of concerns about whether the fair value of these properties could be reliably estimated. The ASB acknowledges that modern valuation techniques are such that this concern is no longer valid.

Improvement Number 36

IAS 40 – Consistency of terminology with IAS 8

IASB question: *Do you agree with the proposal to conform the terminology used in paragraph 31 of IA 40 to the terminology used in IAS 8? If not, why?*
ASB response: The ASB agrees with the proposed amendment.

Improvement Number 37

IAS 40 – Investment property held under a lease

IASB question:

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

ASB response:

The ASB agrees that this is an appropriate amendment. However, we would point out that the same criticism seems to apply to the opening sentence of paragraph 50, which also implies that the fair value of the investment property is determined by adding back separately recognised liabilities. We would suggest redrafting this to read 'In determining the carrying amount of investment property under the fair value model…'.

Improvement Number 38

IAS 41 – Point-of-sale costs

IASB question:

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?

ASB response:

Whist the ASB is in favour of consistency with other standards with regards to terms used, we question whether the IASB is correct in stating that 'point-of-sale costs' and 'costs to sell' mean the same thing in the context of IAS 41.

We would suggest that the guidance in the existing paragraph 14 of IAS 41 is helpful and so should be retained.

If both terms relate to transaction costs at the point of sale (hence exclude transportation costs), does 'costs to sell' include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties? This is not clear in the amended definition of 'costs to sell' as it states that finance costs are excluded and gives no further detail other than the use of the word 'incremental' which we are advised means we should exclude costs already included in the fair value measurement of a biological asset such as transport costs.

We are not in agreement that the terms necessarily mean the same thing. We consider that the definition of 'costs to sell' should provide more guidance as to what it does and does not include.

Improvement Number 39

IAS 41 –Discount rate for fair value calculations

IASB question:

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?

ASB response:

The ASB agrees with the IASB that either a pre-tax or post-tax discount rate should be permitted according to the valuation methodology used. Additionally, it may be appropriate to require the preparer to state if the discount rate used is pre or post-tax.

Improvement Number 40

IAS 41 –Additional biological transformation

IASB question:

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

ASB response:

The ASB agrees with the IASB that the prohibition on taking 'additional biological transformation' into consideration should be removed when calculating fair value using discounted cash flows (paragraph 21). We also agree to the changes in paragraph 17.

However, the ASB does not agree with altering the definition of 'biological transformation' to include 'harvest' (paragraph 5). We consider that 'harvest' is a process induced by man and hence is not a biological transformation. This is clearly defined under harvest and hence the introduction of the term in the definition of a 'biological transformation' is incorrect and may be confusing.

The ASB notes that if the proposed change is made, consequential amendments (eg to paragraph 52) may be needed.

Improvement Number 41

IAS 41 –Minor wording improvements: examples of agricultural produce and products

IASB question:

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

ASB response:

The ASB agrees with the IASB that 'logs' are an example of produce that has been processed rather than an example of unprocessed produce and hence approve the amendment in the example for agricultural produce from 'logs' to 'felled trees' and, in the resultant products section, addition of the word 'logs'.