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Ms Dora Cheung
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Exposure Draft of Proposed Improvements to International Financial Reporting Standards

Dear Ms Cheung,

Deloitte Touche Tohmatsu is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft of Proposed Improvements to International Financial Reporting Standards (referred to as the 'exposure draft').

We welcome the Board's initiative to deal with minor issues in an efficient way to ensure the high quality of IFRSs. However, we believe it is not clear what are regarded by the Board as minor amendments and how such amendments are distinguished from 'major' amendments. We are concerned that this lack of clarity might lead to changes to IFRSs that would better be dealt with as part of the normal due process, i.e. separate exposure of the amendments. Although we acknowledge that the Annual Improvements document is subject to due process as set out in the IASB's *Due Process Handbook* we are concerned that the level of scrutiny may be less for Annual Improvements than it would be for amendments exposed on a stand-alone basis.

We believe that several of the proposed amendments are major amendments to IFRSs and should be exposed as separate documents because the proposed amendments either change or challenge important principles in IFRSs or have consequences beyond the situation the amendment is aiming to address. These amendments have been specified in the attached appendix under the heading 'General remarks'.

We acknowledge the Annual Improvements process is useful and therefore encourage the Board to continue this process. However, we believe the Board should set out which criteria are applied in deciding if an amendment is considered minor and if the impact on existing practice is one of them. Furthermore, the Board should ask constituents to identify any amendments that they believe need more extensive consideration (i.e. separate exposure). Based on responses from the constituency the Board should reconsider its decision on the inclusion of the respective proposed amendments and, where appropriate, should ensure amendments are exposed separately.

Our detailed comments and answers to your questions on the exposure draft are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0) 207 007 0907.

Sincerely,

Ken Wild
Global IFRS Leader

APPENDIX

NB: Below are our detailed comments on the proposed amendments sorted by Standard with general remarks at the beginning.

General remarks

Objective of Annual Improvements

The introduction to the exposure draft states that the 'objective of the annual improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary ***minor amendments*** [emphasis added] to IFRSs.' Although we welcome the objective of the Annual Improvements Project, we believe that the IASB should more clearly communicate what is meant by a 'minor amendment'. This would help constituents understand which issues are addressed within this process in comparison with standard IASB due process where proposed amendments are published on a 'case by case' basis. This is important so that all amendments are given an appropriate level of consideration by the Board and constituents. This would also ensure that due process is followed and that the Board's mandate is transparent. In our opinion the following proposed amendments in the exposure draft could not be considered 'minor':

- the requirement of additional disclosures if an entity is not able/willing to apply IFRSs in full in IAS 1 *Presentation of Financial Statements*
- the proposed deletion of guidance for classification of leases of land in IAS 17 *Leases*
- the proposed replacement of the term 'fall due' in IAS 19 *Employee Benefits*
- the change in the accounting treatment for property under construction/development in IAS 40 *Investment Property*

Disclosure of amendments to existing Basis for Conclusions

Currently, the exposure draft only contains the proposed amendments to the text of the Standard concerned without any consequential amendments to the related Basis for Conclusions. Although we acknowledge that the Basis for Conclusions is not an integral part of a Standard we believe publishing amendments to the Basis for Conclusions would support full understanding of the implications arising from the changes. For example, the amended Basis for Conclusions could contain a discussion of the reasons for the Board to change a previously reached consensus or why a Standard needed clarification.

Transitional Provisions

Regarding the proposed transitional provisions we believe it is neither necessary nor appropriate to require an entity that wishes to adopt one or some of the amendments early to adopt IAS 1 *Presentation of Financial Statements* (as revised in 2007) early as none of the amendments would be affected directly by the revisions to IAS 1 with the exception of references. We also disagree with the proposed requirement in the exposure draft to early adopt all other amendments of the exposure draft if an entity wishes to early adopt amendments to a single Standard provided that this is appropriately disclosed in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We see the exposure draft as a collection of separate issues bundled together for efficiency and believe that each amendment should be treated separately for adoption purposes. We believe the Board should consider breaking down the proposed amendments into parts, for example on a Standard by

Standard basis. Separate adoption of each part should be allowed, except to the extent that the Board considers some parts to be linked.

Omitted issue for Annual Improvements

We note in the IASB Update in June 2007 that, as part of the Annual Improvements 2007 discussions, the Board agreed to amend IAS 39 *Financial Instruments: Recognition and Measurement* to clarify why financial guarantee contracts held by an entity are outside the scope of IAS 39. We presumed this would have been included in this exposure draft and therefore available for public comment but unfortunately it does not appear to be included. We request the Board to follow up on this issue and propose that this should be included in the Annual Improvements 2008 to be published later this year.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Restructuring of IFRS 1

Question 1

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

Yes, we agree with the suggested restructuring of IFRS 1, as this will add clarity to the Standard and ensure that future amendments to IFRS 1 can be added easily.

We also would like to point out that the proposed amendments contain a minor editorial flaw. In paragraph 5 of Appendix B, second sentence, the first occurrence of the word 'under' should be struck through.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Plan to sell the controlling interest in a subsidiary

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, particularly in the light of the Board's rationale for reaching this conclusion. The proposed amendment would achieve consistency between IFRS 5 and IAS 27 *Consolidated and Separate Financial Statements* since IAS 27.31 and .32 require an entity to derecognise all assets and liabilities of the former subsidiary on the date of loss of control and the recognition of an investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (if it does not become an associate or a jointly controlled entity).

However, we note that, when an entity loses control over a subsidiary but retains an interest giving significant influence, the proposed Basis for Conclusions states the following in BC2 and BC3:

> "Therefore, the new investor-investee relationship is recognised and measured initially at the date when control is lost."
>
> "[…] the controlling interest of the subsidiary is, in substance, exchanged for a non-controlling interest."

We understand that under the revised IFRS 3 *Business Combinations* any retained interest will be recognised and measured initially at fair value at the time control is lost over the subsidiary and profit recognised for the disposal as a whole. We question whether the views expressed by the Board in BC2 and BC3 would already be applicable to the IFRS literature that is currently mandatorily applicable or whether reference to accounting would be applicable only when IFRS 3 (as revised in 2008) will become effective. We believe that the current literature that is mandatorily applicable is unclear on how the retained interest should be measured at the date control is lost and we are aware of current practices that are very different from the proposed accounting treatment (e.g. no re-measurement of the retained interest at fair value at the time control is lost, based on an analogy drawn to the requirements in IAS 27.32 before its 2008 revisions).

We agree that loss of control triggers an IFRS 5 re-classification as held for sale of the entire subsidiary and we believe that the reasons expressed in BC2, even if the sentences presented above are deleted, are sufficient to support the reclassification. Therefore, if the proposed reference to accounting treatment in BC2 or BC3 is not supposed to be applicable before the effective date of IFRS 3 (as revised in 2008), the proposed Basis for Conclusions of the amendment should be modified accordingly.

Furthermore, we would like to draw the Board's attention to a perceived inconsistency resulting from this amendment. If an entity plans to sell part of its investment involving a loss of control which represents a discontinued operation, it would have to present the results from this investment within discontinued operations in the income statement. However, a significant amount of those results will flow to the entity in future periods as a consequence of its continuing investment (this investment might be accounted for as a joint venture, an associate or a financial instrument). We believe it is at least questionable whether this information is the most relevant for users of financial statements and hence, encourage the Board revisit this issue in its joint project with the FASB on financial statement presentation and when it conducts its review of IFRS 5.

Furthermore, for the purpose of clarification we suggest that the proposed paragraph 8A in IFRS 5 is amended as follows (new text underlined):

> "8A An entity that is committed to a sale plan involving loss of control of a subsidiary, which meets the criteria in paragraphs 6 to 8 to be classified as held for sale, 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."

Consequential amendment from IAS 41: Point-of-sale costs

See our answer to question 38.

APPENDIX

IFRS 7 *Financial Instruments: Disclosures*

Presentation of finance costs

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.

Consequential amendment from IAS 28 and IAS 31: Disclosure requirements for investments in associates and interest in jointly controlled entities accounted for at fair value through profit or loss

See our answer to question 22.

IAS 1 *Presentation of Financial Statements*

Statement of compliance with IFRSs

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?

We do not agree with the proposed amendment. IFRSs shall provide guidance only for entities applying full IFRSs and shall not contain guidance for other accounting frameworks, even if they are similar to IFRSs. Although we understand the Board's intention, we have great concerns that this might encourage constituents not to apply full IFRSs, undermining the goal of IFRSs to have a single set of high quality, understandable and enforceable global accounting standards (*Preface to IFRSs* paragraph 6(a)).

In particular we share the concerns raised in the Alternative Views that the implementation of this disclosure requirement would be tantamount to accepting other accounting regimes as of equal value as IFRSs. Furthermore, we strongly support the view expressed therein that entities not adopting IFRSs in full are not required to comply with such a disclosure requirement.

The same applies to jurisdictions that have not endorsed IFRSs in full within their accounting framework. It is difficult to believe that these jurisdictions would endorse such a disclosure requirement that equals an explicit statement of non-compliance with IFRS. This puts into question the comparability of financial statements and the overall credibility of IFRS.

For the reasons stated above, we urge the Board *most strongly* not to proceed with this amendment.

APPENDIX

Current/non-current classification of convertible instruments

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?

We do not agree with the proposed amendment. This proposal appears to be in conflict with the Framework. Paragraph 62(e) of the Framework states that settlement (which in context we understand to mean extinguishment) of a present obligation may occur through the conversion of the obligation to equity. We believe the principle in the Framework is correct and that any amendment of IAS 1.69(d) should reflect this principle.

However, if the Board decides to proceed with this amendment we wish to note the following:

- Paragraph 69(c) would apparently still require classification as current, if a liability is due to be settled by issue of equity within twelve months. This issue could be solved by amending IAS 1.69(c) as follows (new text underlined):

  > '… is due to be settled within twelve months after the reporting period by a transfer of cash or other assets; […]'.

- The proposed wording in IAS 1.69(d) is misleading in that it refers to '[…] an unconditional right to defer settlement of the liability by the transfer of cash or other assets for at least twelve months after the reporting period'. This implies a settlement might be deferred by transferring cash or other assets. We suggest that the wording proposed in the exposure draft be amended to (new text underlined; deleted text struck through):

  > '[…] an unconditional right to defer ~~settlement of the liability by the~~ any transfer of cash or other assets in settlement of the liability for at least twelve months after the reporting period (see paragraph 73).'

Current/non-current classification of derivatives

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?

Yes, we agree. We believe that the criteria set out in IAS 1.69 should be applied to decide if financial instruments classified as held for sale should be presented as current or non-current, given that the entity applies such a classification to its balance sheet.

APPENDIX

IAS 2 *Inventories*

Consequential amendment from IAS 41: Point-of-sale costs

See our answer to question 38.

IAS 7 *Statement of Cash Flows*

Consequential amendment from IAS 16: Sale of assets held for rental

See our answer to question 10.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Status of implementation guidance

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 with the proposed amendment. We believe the current wording in IAS 8 can be misinterpreted as requiring mandatory application of the implementation guidance.

Whilst we understand that the Board seeks comments only to the proposed amendments we also wish to highlight the potential for confusion on the status of implementation guidance in the IASB *Due Process Handbook* in paragraph 41 that states "The draft may also include mandatory application guidance and implementation guidance […]". The term 'mandatory' might be understood as also relating to the term 'implementation guidance'. We therefore suggest clarifying this by adding the term 'non-mandatory' before the term 'implementation guidance'.

IAS 10 *Events after the Reporting Period*

Dividends declared after the end of the reporting period

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. If, at the balance sheet date, the entity has not declared a dividend, there is no liability to recognise. While the entity may have an established pattern of paying a dividend, in the case of an equity instrument, at the balance sheet date, the entity continues to have genuine discretion over whether or not to declare a dividend. This is consistent with IAS 32 *Financial Instruments: Presentation*.

<u>**APPENDIX**</u>

<u>**IAS 16 *Property, Plant and Equipment***</u>

<u>Recoverable amount</u>

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. We believe the amendment achieves consistency with the language used in other IFRSs.

<u>Sale of assets held for rental</u>

Question 10

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

We agree with the amendment to IAS 16. We believe that the proposed amendments may better reflect the activities of an entity that generates revenue from renting and subsequently selling the same assets if that represents its business model.

Additionally, we suggest that the Board should make a consequential amendment to paragraph 3 in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to clarify that items of property, plant and equipment contemplated in IAS 16.68A may be reclassified as current assets although they do not meet the criteria for being held for sale set out in IFRS 5. Also, we propose that the Board should clarify that 'held for sale' in the context of IAS 16.68A does not refer to 'held for sale' as defined in IFRS 5. Alternatively, the Board might consider using alternative terminology to avoid confusion.

Furthermore, we believe it would be appropriate also to amend IAS 40 *Investment Property* to provide similar guidance on the presentation of the proceeds from disposal for investment property held under a similar business model and ask the Board to consider this in the next Annual Improvements Project. Additionally, we would ask the Board to consider the appropriate classification of such assets on initial recognition, in particular whether they should be classified as inventory or property, plant and equipment/ investment property.

We disagree with the proposed amendment to IAS 7 *Cash Flow Statements*. We believe balance sheet classification and presentation within the cash flow statement should be consistent: if the cash outflow is for an item that is initially recognised as a long-term asset, such as property, plant and equipment, we believe it is appropriate to classify the cash outflow as resulting from 'investing activities' rather than 'operating activities'. However, if the cash inflow resulting from the disposal is classified as revenue from sale of inventories in accordance with the amendment in IAS 16, this cash inflow should be classified as resulting from 'operating activities'.

Consequential amendment from IAS 40: Property under construction or development for future use as investment property

See our answer to question 35.

IAS 17 *Leases*

Classification of leases of land and buildings

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?

We do not agree with the proposed deletion. We believe the current guidance in IAS 17.14 and .15 is not inconsistent with the general guidance on the classification of leases in paragraphs 7-13 in IAS 17. We believe it provides guidance on the application of the general classification principles to leases of land.

Furthermore, we believe this amendment may have possible unintended consequences. The Basis for Conclusions to IAS 40 *Investment Property* explains in paragraphs 4 through 7 why the Board decided not to delete paragraph 14 of IAS 17 and to insert an option to treat such leases as investment property in the financial statements of the lessee. As the proposed amendments to IAS 17 will delete the specific guidance on leases of land, certain long-term leases of land might be considered as finance leases from the perspective of the lessee and hence, would be treated as investment property in accordance with IAS 40 if they met the criteria for such qualification in IAS 40.

We believe that this consequence was not intended by the Board and that this is a prime example for the need to modify existing Basis for Conclusions and add them to the exposure draft. Therefore, if the Board goes ahead with the proposed deletions, we suggest amending paragraphs 4 through 8 of the Basis for Conclusions to IAS 17 and paragraphs 4 and 5 of the Basis for Conclusions to IAS 40 to appropriately reflect the Board's intention.

If the Board's intention was to permit or require classification as finance leases of long-term leases of land (for which title is not expected to pass to the lessee by the end of the lease term), then these leases will have to be reclassified and the financial statements of the entities concerned would have to be retrospectively adjusted. Prior to the adoption of IFRS many entities already treated such lease arrangements as finance leases under their previous accounting frameworks resulting in reclassifications of such leases as operating leases at the date of transition. This amendment would undermine the Board's attempt to achieve a stable platform and we would propose that such amendment is reflected as part of the IASB's project on leases.

APPENDIX

Contingent rents

Question 12

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

Yes, we strongly support the proposed amendment. It reflects the current practice that has developed on this topic. However, we disagree with paragraph BC4 of the Basis for Conclusions that an estimate of contingent rent was 'required' by IAS 17 at the inception of the lease. The IFRIC dealt with this issue and concluded in the July 2006 IFRIC Update that the Standard is unclear with regard to this issue. This is supported by paragraph BC5 which admits the ambiguity of the Standard in this respect. We therefore suggest amending the Basis for Conclusions as appropriate.

Furthermore we believe the Standard is not clear in what is meant by the term 'recognised as incurred' and suggest to amend paragraph 33 as proposed as follows (new text underlined; deleted text struck through) to provide clarity:

> "Lease payments (excluding costs for services, taxes to be paid by and reimbursed to the lessor and contingent rent) under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.* ~~Contingent rent shall be recognised as an expense in the periods in which it is incurred.~~Contingent rent shall be recognised as an expense over the period from the date it ceases to be contingent until the end of the lease term, on the same basis as other lease payments, unless it relates to a shorter period in which case it shall be recognised over that shorter period."

In addition to this amendment we suggest adding an explanatory paragraph 34A:

> "Where the terms of a lease specify that, following the occurrence of a contingent event, higher operating lease payments will be due for the remainder of the lease term, the contingent rent is recognised as an expense from the date the event ceases to be contingent until the end of the lease term. In other circumstances, contingent rent may relate to a shorter period. For example, additional operating lease payments may become payable in any period in which revenues or profits exceed a particular threshold. In such circumstances, the contingent rent is recognised in full as an expense in that period."

IAS 18 *Revenue*

Costs of originating a loan

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. We believe any inconsistencies within IFRSs should be avoided.

APPENDIX

IAS 19 *Employee Benefits*

Curtailments and negative past service cost

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?

Given the Board does not intend to change its position on the deferral mechanism applied to negative past service cost, we agree with the proposed amendment. However, we suggest adding guidance explaining the meaning of IAS 19.111(b) and how an entity shall make the distinction between a reduction of benefits that relates to future services and one that relates to past services. The reason the Board provided no guidance for such a distinction previously was that it expected no significant effect in practice (IAS 19.BC62). The fact that this distinction can have material effects on profit or loss is admitted in the Basis for Conclusions of the amendments to IAS 19.BC7.

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. We believe the concept of materiality is universally present in accounting and has to be considered in every situation taking into account all facts and circumstances. Using the term 'material' in a specific context has led to confusion.

We note, however, that materiality is used elsewhere in IAS 19 (e.g. in paragraph 67 with respect of attributing benefits to periods of service). We suggest replacing all references to materiality and using the terms 'significant' or 'significantly' instead. In order to provide further clarity, we suggest that the Board indicates what is meant by 'significant' either by providing a definition of the term in the Standard or by providing additional explanation in the Basis for Conclusions.

Plan administration costs

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 on the basis that it avoids double-counting of costs.

Replacement of term 'fall due'

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?

We do not agree with the proposed amendment. We believe that replacing the term 'fall due' with the term 'entitled' does not clarify the Board's intention. It also creates confusion with respect to the term 'vest', which Appendix A of IFRS 2 *Share-based Payment* defines as 'to become an entitlement'. Both terms have the same meaning and to use them differently is unhelpful. We ask the Board to consider an alternative wording and provide additional guidance on how to apply this in practice.

Additionally, paragraph BC4 of the amendment could be read as implying the Board is shifting the focus from settlement to entitlement with regard to drawing a line between short-term and other long-term employee benefits. If this is the Board's intent, the amendment could not be considered minor and should be exposed separately.

Guidance on contingent liabilities

Question 17

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

Yes, we agree.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Consistency of terminology with other IFRSs

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.

Government loans with a below-market rate of interest

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.

APPENDIX

IAS 23 *Borrowing Costs*

Components of borrowing costs

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. We believe this ensures consistency with IAS 39 *Financial Instruments: Recognition and Measurement*. We note that the effective interest rate will also take into account any amortisation from existing fair value hedge adjustments to debt instruments that are designated as hedged items in a fair value hedge. This is appropriate as we believe the benefits of hedge accounting should not be influenced by IAS 23.

We also agree with the deletion of the reference to ancillary costs.

IAS 27 *Consolidated and Separate Financial Statements*

Measurement of subsidiary held for sale in separate financial statements

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.

IAS 28 *Investments in Associates*

Required disclosures when investments in associates are accounted for at fair value through profit or loss

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?

We do not agree with the proposed amendment. We do not see the rationale behind requiring entities that applied the fair value option in accordance with IAS 28.1 to provide disclosure in accordance with IAS 28.37(f). The reason for allowing entities to apply the fair value option was that they manage their investments like 'normal' financial instruments. This is the reason why the Board introduced the option for those institutions to fair value all their investments (IAS 28.BC5). We do not believe the nature of those investments is different from that of other financial instruments accounted for under IAS 39 *Financial Instruments: Recognition and Measurement* from the perspective of those entities and hence, we believe that there should be no additional disclosure requirements.

If the Board believes that such disclosure is relevant for investments, it should be included as an amendment to IFRS 7 *Financial Instruments: Disclosures* and be applicable to all financial instruments. The Board may wish to consider if it can identify further disclosures within IAS 28 (and/or IAS 31) that it finds relevant for all financial instruments.

We further suggest adding clarifying words at the end of IAS 28.1 (and IAS 31.1) to make clear that entities applying the fair value option in these paragraphs must provide disclosures for their investments in accordance with IFRS 7:

> "[…] An entity accounting for an investment in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* shall apply the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*."

<u>Impairment of investment in associate</u>

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.

<u>**IAS 29 *Financial Reporting in Hyperinflationary Economies***</u>

<u>Consistency of terminology with other IFRSs</u>

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 with the principle. However, we propose that the notion 'must be measured at fair value' should be replaced by 'is generally measured at fair value' as there are exceptions to the mandatory fair value measurement principle in IAS 41 *Agriculture* (IAS 41.12 and .30). Furthermore we suggest amending paragraph 1 of the Basis for Conclusions by replacing 'current value' with 'fair value' as this is the term commonly used throughout IFRSs.

APPENDIX

IAS 31 *Interests in Joint Ventures*

Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

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?

See our answer to question 22.

IAS 32 *Financial Instruments: Presentation*

Consequential amendment from IAS 28 and IAS 31: Required disclosures when investments in associates and interests in joint controlled entities are accounted for at fair value through profit or loss

See our answer to question 22.

IAS 34 *Interim Financial Reporting*

Earnings per share disclosures in interim financial reports

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. We believe this is a clarification of how many preparers interpret the requirements in IAS 34 already.

IAS 36 *Impairment of Assets*

Question 27
Disclosure requirements of estimates used to determine recoverable amount

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.

Consequential amendment from IAS 41: Point-of-sale costs

See our answer to question 38.

APPENDIX

IAS 38 *Intangible Assets*

Advertising and promotional activities

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?

We do not agree with the proposed amendments. We believe that the expenditure should be recognised when the item is first used, i.e. the expenditure should be capitalised until the benefit implicit in the item is consumed by the entity controlling it.

We also share the concern raised by Mr Leisenring as set out in the Alternative Views of the amendment. We believe IAS 38 is not the applicable Standard to determine the recognition of such items.

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?

No, we do not agree for the reasons set out in our answer to question 28(a).

Unit of production method for amortisation

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 with the principle of the proposed amendment. However, we question whether the removal of this anti-avoidance sentence fully solves the issue. Without an indication of what 'the expected pattern of consumption of the expected future economic benefits' means, it is unclear what is or is not allowed.

Furthermore, the IASB did not object to the IFRIC's assertion that 'interest methods of amortisation are not permitted under IAS 38' (see paragraph BC 65 of IFRIC 12 *Service Concession Arrangements*). However, if paragraph 98 is amended it will no longer be clear how IFRIC reached its conclusion. We believe it would be appropriate for the Board to provide additional guidance in IAS 38 on this issue.

APPENDIX

IAS 39 *Financial Instruments: Recognition and Measurement*

Definition of a derivative

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?

Yes, we agree.

Reclassification of financial instruments into or out of the classification of at fair value through profit or loss

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. The amendment brings the definition for a portfolio of financial instruments in line with that of a single financial asset or financial liability.

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. In particular, there is other guidance (IAS 39.IG F.3.9) that explicitly allows derivatives to be designated as hedging instruments after initial recognition. Designated and effective hedging instruments are not considered to be 'held for trading', resulting in a classification out of fair value through profit or loss when a designation is made after initial recognition (and vice versa) if the hedge relationship is terminated.

APPENDIX

Designating and documenting hedges at the segment level

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.

Applicable effective interest rate on cessation of fair value hedge accounting

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. We believe this clarification reflects current practice.

Treating loan prepayment penalties as closely related embedded derivatives

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 in principle. However, we question what is meant by ‘interest’ in paragraph AG33(g) of the proposed amendment to IAS 39 and how the economic loss is calculated. For example, ‘interest’ could be interpreted as the risk-free interest rate, interbank interest rate, any market interest rate, the interest that is contracted when a new loan is originated from the funds prepaid or the contractual interest of the prepaid instrument. In addition it is not clear whether ‘interest’ would include or exclude changes in counterparty credit risk or reflect changes in credit risk more generally.

We consider that it would be useful for the Board to provide additional guidance on the term ‘interest’ as this is the starting point for analysing if a prepayment option is considered to be closely related to the host contract. Alternatively, the Board could provide an example of the type of 'make-whole' provisions the amendment is trying to deem as being closely related now.

APPENDIX

IAS 40 *Investment Property*

Property under construction or development for future use as investment property

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?

We would agree with the proposed amendment if the amendment would provide for an option to give entities a choice to account for property under construction or development for future use as investment property under a cost or fair value model without affecting their option for other (completed) investment property.

We understand that there are economies and markets where the fair value of property under construction or development for future use as investment property could not be determined without significant efforts. If an entity has an accounting policy of accounting for other investment property using a fair value model this amendment would be burdensome for such entities as they would also need to fair value property under construction or development for future use as investment property. Furthermore, we understand that there are situations in which the fair value of property under construction or development for future use as investment property cannot be determined reliably until construction or development is completed. If an entity is not able to reliably determine the fair value of property under construction or development for future use as investment property, IAS 40.53 requires application of the cost model until disposal of the investment property, although fair value could be determined reliably once the construction or development phase has been completed.

We see the conceptual merits of carrying property under construction or development for future use as investment property at fair value with changes recognised in the income statement if an entity applies the fair value model. However, if the Board's proposal were adopted without granting entities an option to continue to apply a cost model during the period of construction or development we believe this would be a major change in the accounting treatment for such assets.

Consistency of terminology with IAS 8

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.

APPENDIX

Investment property held under lease

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.

IAS 41 *Agriculture*

Point-of-sale costs

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?

Yes, we agree. We believe the term 'fair value less costs to sell' should be used throughout IFRSs. Additionally, we suggest amending paragraph 6 of IAS 36 *Impairment of Assets* by replacing the term 'costs of disposal' with 'costs to sell'.

Discount rate for fair value calculations

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?

Yes, we agree. We believe that tax consequences are part of a purchase decision. However, we question if the requirements for determination of the value in use in IAS 36 *Impairment of Assets* should also be amended to allow entities to consider the tax consequences of using an asset.

Additional biological transformation

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?

Yes, we agree. This removes an inconsistency in IAS 41 as willing buyers and willing sellers will undoubtedly take into account the fact that an asset is still alive.

APPENDIX

Examples of agricultural produce and products

Question 41

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

Yes, we agree.

Consequential amendment from IAS 20: Consistency of terminology with other IFRSs

See our answer to question 18.