Date

24 January 2008

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Dear Mr. Enevoldsen,

Re: <u>EFRAG Draft Comment Letter on IASB ED of Proposed Improvements to International Financial Reporting Standards</u>

General

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of Proposed Improvements to International Financial Reporting Standards.

2. Like EFRAG, we welcome the Board's initiative to deal with minor issues in an efficient way with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs. We also share EFRAG's findings that some of the issues currently dealt with in the ED should have been included in a "case by case" basis process, even if we do not share all the illustrations mentioned by EFRAG in its draft response. We would have omitted example (b) on the application guidance and added Issues 16 and 28.

3. Consequently we think EFRAG could usefully suggest that the Board clarifies what is meant by a "minor amendment" and how such amendments are distinguished from "major" ones. Without having such a distinction, we fear that the improvements projects could lead to changes that would be better dealt with in separate exposure drafts of the proposed amendments. Even if the Annual improvements document is subject to due process, we are concerned that the level of scrutiny by all participants in anticipating all the consequences of the proposed changes could be less than it would be for amendments exposed on a stand-alone basis.

4. We question whether EFRAG could express some reservation regarding the proposed transition provisions. We do not consider it is necessary to require an entity which wants to early adopt one or some of the proposed amendments to early adopt all the amendments from the Annual Improvements Project as well as the revised version of IAS 1. We would prefer that an entity be left with the choice of the amendments it decides to early adopt, provided, of course, that it adopts at the same time all other consequential amendments.

5. Our responses to the invitation to comment of the ED are presented in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

Ref: ACC/JP/LF-SR

APPENDIX

Responses to the Invitation to comment on Improvements to International Financial Reporting Standards

IFRS 1 First-time Adoption of International Financial Reporting Standards

Issue 1: Restructure of IFRS 1

IASB Q1: Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

1. We agree with EFRAG and we support the proposed restructuring of IFRS 1.

2. However, we are not sure to understand clearly what is really meant by the last sentence in paragraph 2 of the EFRAG Draft Comment Letter. We are of the opinion that it could be suggested to IASB to delete all the remaining dates relating to IAS 39, as they appear to be less relevant with the passage of time, in favour of a clearer opening balance sheet approach.

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

Issue 2: Plan to sell the controlling interest in a subsidiary

IASB Q2: IASB Q2: 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?

3. We agree with EFRAG and we support the proposed amendment to IFRS 5 so that the interpretation of the term 'principally' in paragraph 5 of IFRS 5 is as detailed in paragraph 3 (a) of the EFRAG Draft Comment Letter, i.e. that the triggering event for the classification as held for sale is being committed to a plan involving loss of control over a subsidiary. Furthermore, we would appreciate the Board clarifying how the carrying amount of the investment should be determined in case of a change in the status resulting in a change in the accounting policy from consolidation to the equity method.

4. With this improvement, we understand that the revised IFRS 5 would result in all the assets and liabilities of a subsidiary being classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary. It remains uncertain whether the same rationale would apply when there is a sale plan involving loss of control but with a remaining interest conferring a joint control to be accounted for using the proportionate consolidation method (until ED 9 becomes effective). It would be useful to provide clarification on this question.

5. Furthermore, it appears that the guidance provided and the conclusions drawn are based on the revised standards IAS 27 and IFRS 3 and imply remeasurement of the remaining interest at fair value. This point should be mentioned clearly in the Basis for Conclusion.

IFRS 7 Financial Instruments: Disclosures

Issue 3: Presentation of finance costs

IASB Q3: The Board proposes to amend paragraph IG13 of IFRS 7 Financial Instruments: Disclosures *to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?*

6. We agree with EFRAG and the proposed amendment.

IAS 1 Presentation of Financial Statements

Issue 4: Statement of compliance with IFRSs

<u>IASB Q4:</u> 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?

7. We agree with EFRAG comments in paragraph 13 of the EFRAG Draft Comment Letter that this issue is too significant to be incorporated within the Annual Improvements Project. The proposed change merits further detailed consideration, including an assessment of the impact in jurisdictions that apply an endorsement process and consideration of the audit implications.

8. We think that paragraph 11 of the EFRAG Draft Comment Letter needs to be deleted since it contradicts paragraph 13 of the EFRAG Draft Comment Letter.

9. We agree with EFRAG in that this will prove a difficult requirement in practice for entities in jurisdictions that have an endorsement procedure. Under these circumstances any new amendments to standards not yet endorsed may create timing inconsistencies from one year to another in the statement of compliance with IFRS. We do not feel that this will provide the most useful information to users of financial statements.

10. We also believe that the proposed amendment will create an audit issue as auditors may see the need to quantify through their audits the extent to which the reported financial position and financial performance would have differed if IFRS had been complied with in full. While we understand that the proposed requirement is qualitative, we are of the opinion that this potential new element of disclosure may become quantitative pursuant to ISAs if auditors are required to include the proposed disclosure as part of their auditors' report as set out in the paragraph below. This potential consequence provides another reason why we favour not to include such an amendment as part of the Annual Improvements project.

11. We acknowledge that audit implications are not the primary concern of the IASB. Nevertheless we believe that, in this case, the potential consequences are so important that they merit to be explained in detail. The International Auditing and Assurance Standards Board (IAASB) in July 2007 issued for exposure Proposed International Standards on Auditing 700 (Redrafted) - The Independent Auditor's Report on General Purpose Financial Statements (Proposed ISA 700). In paragraph A9 of the Application and Other Explanatory Material, Proposed ISA 700 states that: "If the framework is described by reference to International Financial Reporting Standards, but the framework does not require the entity to disclose the information in (a) and (b) above [Para 16A of the Improvements ED] and the financial statements do not in fact disclose such information, the description is likely to be misleading if the effect on financial statements of the difference between the framework and International Financial Reporting Standards may be significant."

12. FEE has commented to IAASB that this phrase could lead to a proliferation of modified auditor's reports. Paragraph BC3 of the ED explicitly states that companies are <u>not</u> required to quantify the difference between their financial statement prepared in accordance with full IFRS and modified IFRS respectively. However, in the absence of quantification by the reporting entity, it is probable the auditor will be unable to determine that the financial statements prepared in accordance with modified IFRS are misleading or not. FEE urged the IAASB Board in its comments on the proposed ISA 700 to revisit the contents of Paragraphs A9 to A11 (including the related content of paragraphs A33 and A34 of proposed ISA 700), in collaboration with the IASB, and reconsider the appropriateness of their inclusion "in the proposed redrafted ISA 700."

13. Furthermore, it is worthwhile to know that, in paragraph A33 of the Application and Other Explanatory Material, Proposed ISA 700 states that: "If the financial statements do provide sufficient disclosure of the difference and are therefore not misleading (see paragraph A9), the auditor may nevertheless decide to add an Emphasis of Matter paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted) if the auditor judges the differences between the applicable financial reporting framework and International Financial Reporting Standards to be of such importance to users' understanding of the financial statements as a whole that it would be appropriate to draw their attention to it." Although this paragraph is part of the Application and Other Explanatory Material, and that an auditor, as a consequence, is not required to follow it and to add an emphasis of matter paragraph, it shows the potential impact of the introduction of paragraph 16A to IAS 1.

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

<u>IASB Q5:</u> *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?*

14. We agree with EFRAG's comments and the suggestion in paragraph 17 (a) of the EFRAG Draft Comment Letter, i.e. amending IAS 1.60(d) so it refers to "transfer of cash or other benefits" instead of "transfer of cash or other assets". Benefits would still not include issuing own equity, as this would not represent an outflow of resources, while it would allow other outflows of resources other than assets (i.e. services) to be considered. We also agree with the objective of the proposed amendment.

Issue 6: Current/non-current classification of derivatives

IASB Q6: 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?

15. We agree with the proposed amendment, subject to EFRAG's comments. We support the suggestion of the additional text as detailed in paragraph 18 (a) of the EFRAG Draft Comment Letter in order to resolve the issue with criterion (b) in paragraphs 66 and 69 of IAS 1 (regarding the assets and liabilities held primarily for the purpose of being traded).

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Issue 7: Status of implementation guidance

<u>IASB Q7:</u> *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?*

16. We agree with the proposed amendment and EFRAG's comments. We also believe that the amended text is very clear regarding the status of the Implementation guidance.

Issue 8: Dividends declared after the end of the reporting period

<u>IASB Q8:</u> *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?*

17. We share EFRAG's comments but also agree with EFRAG to support the proposed amendment.

IAS 16 Property, Plant and Equipment

Issue 9: Recoverable amount

<u>IASB Q9:</u> Should the definition of recoverable amount in IAS 16 be amended to re-move the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

18. We agree with EFRAG's comments and the proposed amendment.

Issue 10: Sale of assets held for rental

<u>IASB Q10:</u> Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

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

19. We agree with EFRAG and the proposed amendment to amend IAS 16 as it may better reflect the activities of those companies that generate revenue both by renting and subsequently by selling the same assets. Recognition of the proceeds from the sale of such assets in the revenue figure would be in line with the business model of these companies.

20. For the same reasons we consider that any asymmetry in the cashflow statement relating to the classification of cash flows "in" and "out" from the activities of such companies should be resolved. The proposed amendment to consider that these cash flows are of the nature of operating cash flows seems appropriate.

21. Regarding the question of extending this principle to all companies that hold dual intention assets, we share EFRAG's comments to recognise that this would probably take such an amendment outside the scope of the Annual Improvements project. Furthermore, we believe that this question should be discussed further, for example in conjunction with the Revenue Recognition project.

22. In the meantime, we consider that the proposed amendments are useful, as they will improve the consistency in financial reporting across different industries.

IAS 17 Leases

Issue 11: Classification of leases of land and buildings

<u>IASB Q11:</u> 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?

23. We are puzzled with the Board's intent when proposing such a change, as the explanations expressed in the BC are not explicit enough. Does the deletion of paragraph 14 and part of paragraph 15 mean that the IASB has changed its mind and considers now that a land can be classified as a finance lease even if the title is not expected to pass to the lessee by the end of a long-term lease agreement? In that case, a similar change should be needed in paragraphs 4 and 5 of the basis for conclusion of IAS 40, as it seems to express a different conclusion at that place.

However, we would not necessarily disagree with the proposed change as soon as the underlying principles would have been expressed clearly by the Board and discussed as such in a clearer and complete due process.

24. We do not feel that it is necessary to add a second "of" in paragraph 15, as suggested in paragraph 34 of the EFRAG Draft Comment Letter.

Issue 12: Contingent rents

<u>IASB Q12:</u> Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

25. We agree with EFRAG and the proposed amendment. We also view this amendment as a clarification of the accounting of this issue in practice.

26. We agree with EFRAG's comments and the suggestion to refine the drafting in order to prevent structuring opportunities arising, as detailed in paragraph 38 of the EFRAG Draft Comment Letter.

27. In addition, we still feel that it is unclear what is exactly meant by 'incurred' and whether it has to be viewed as "when it ceases to be contingent". We would appreciate further clarification on this.

28. We also believe that it would be useful if the standard provided an illustrative example to clarify further the accounting regarding this issue in practice.

IAS 18 Revenue

Issue 13: Costs of originating a loan

<u>IASB Q13:</u> 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?

29. We agree with the proposed amendment and we share EFRAG's comments.

IAS 19 Employee Benefits

Issue 14: Curtailments and negative past service cost

<u>IASB Q14:</u> (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?

30. We agree with EFRAG and the proposed amendment, based on the fact that the Board does not intend to change the deferral mechanism applied to negative part service cost.

<u>IASB Q14:</u> (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?

31. We agree with EFRAG and the proposed amendment.

Issue 15: Plan administration costs

IASB Q15: 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?

32. We agree with EFRAG and the proposed amendment, although we consider that this amendment will confirm what is already done in practice.

Issue 16: Replacement of term 'fall due'

IASB Q16: 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?

33. We do not agree with EFRAG. We reject 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 in IAS 19.7. The same rationale seems to be included in the change in IAS 19.8(b). We understand that in the Board's opinion, it is the timing of the employees entitlement to the benefit rather than the expected timing of settlement that is the critical factor in classifying the benefit (ED Improvements, IAS 19.BC4).

34. However in our opinion, it is problematic to refer to entitlement, because an entitlement in the meaning of a legal title / claim of the employee or a liability of the entity often exists at the balance sheet date already. Therefore, the proposed amendments will potentially result in extensive changes, which might not be appropriate. In some cases, an employee obtains a legal title / claim when rendering the related services. Settlement of the benefits frequently occurs only many years later. We doubt whether it is appropriate to treat these issues as short-term employee benefits and not as long term because of significant differences in measurement.

Issue 17: Guidance on contingent liabilities

IASB Q17: Should the reference in IAS 19 to recognising contingent liabilities be re-moved? If not, why?

35. We agree with EFRAG and the proposed amendment.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

Issue 18: Consistency of terminology with other IFRSs

IASB Q18: 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?

36. We agree with the proposed amendment and we share EFRAG's comments.

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

IASB Q19: 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?

Questions to constituents:

Do you agree that the IASB should be asked to include additional guidance on the issues referred to above?

Are there any other situations, concerning the requirement to impute interest on government loans, where in your view application guidance is needed?

37. We agree with EFRAG and the proposed amendment to apply IAS 39 on this issue.

38. We consider the proposed amendment useful to solve an inconsistency between IAS 39 and IAS 20 on how to quantify the benefit from a below-market rate. We also share EFRAG's concerns that this amendment will solve only a very specific part of granting government assistance with financial instruments such as guarantees or other forms of financial assistance. However, we do not support EFRAG asking for more guidance in determining the" market rate" for companies which are only viable because of government's assistance because it refers to the more general question of finding "fair value" data when there is no market data available.

IAS 23 Borrowing Costs

Issue 20: Components of borrowing costs

<u>IASB Q20:</u> *Do you agree with the proposal to amend paragraph 6 of IAS 23 to reference 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?*

39. We agree with EFRAG and the proposed amendment.

40. Even while we do not disagree with EFRAG's concerns on the possible inconsistencies between IFRS and US GAAP on how origination fees and placement fees should be dealt with in the effective interest rate calculation raise, we consider that consistency within IFRSs should prevail on that issue.

IAS 27 Consolidated and Separate Financial Statements

Issue 21: Measurement of subsidiary held for sale in separate financial statements

<u>IASB Q21:</u> *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?*

41. We agree with the overall conclusion of EFRAG and the proposed amendment.

IAS 28 Investments in Associates

Issue 22: Required disclosures when investments in associates are accounted for at fair value through profit or loss

<u>IASB Q22:</u> *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?*

42. We agree with EFRAG's overall conclusion and the proposed amendment.

43. However, we are of the opinion that the disclosures in IAS 28.37(f) should not give rise to major difficulties in practice and should not result in significant additional costs involved in providing them.

Issue 23: Impairment of investment in associate

<u>IASB Q23:</u> 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?

44. We believe that the consideration of the accounting of the impairment charge concerning Goodwill in relation to an investment in an associate is an important issue. We do not believe that this issue should be dealt with in the annual improvements project. In our opinion, the non-allocation of any impairment loss might involve arguable consequences in view of the sub-ledger needed in order to carry forward the carrying amounts of the assets acquired and liabilities incurred. We encourage a fundamental debate on this issue. At least, we believe that the clarification proposed by the IASB is not sufficiently argued and that the Basis for Conclusions needs to be further elaborated.

IAS 29 Financial Reporting in Hyperinflationary Economies

Issue 24: Consistency of terminology with other IFRSs

<u>IASB Q24:</u> Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

45. We agree with EFRAG and the proposed amendment.

IAS 31 Interests in Joint Ventures

Issue 25: Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

<u>IASB Q25:</u> 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?

46. We agree with EFRAG's overall conclusion and the proposed amendment. We note that the approach of this amendment is consistent with the approach to deal with issue 22. However, in this scenario we share EFRAG's concerns on the importance of ensuring that the benefits to be derived from these additional disclosures justify the costs involved in providing them.

IAS 34 Interim Financial Reporting

Issue 26: Earnings per share disclosures in interim financial reports

IASB Q26: 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?

47. We agree with EFRAG and the proposed amendment, and we consider the suggested amendment in paragraph 82 of the EFRAG Draft Comment Letter as a clarification of current common practice.

IAS 36 Impairment of Assets

Issue 27: Disclosure of estimates used to determine recoverable amount

IASB Q27: 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?

48. We agree with EFRAG that there is an inconsistency and that requiring the same disclosures in both cases should eliminate this inconsistency. We agree with the proposed amendment.

IAS 38 Intangible Assets

Issue 28: Advertising and promotional activities

IASB Q28: (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?

49. We do not agree with EFRAG and the proposed conclusion that an entity should recognise expenditure on the intangible items mentioned in the proposal as an expense when it has access to the goods or has received the services.

50. The Board proposes the following wording for IAS 38.69 "… In the case of the supply of goods, the entity recognises such expenditure as an expense when it has access to those goods. In the case of the supply of services, the entity recognises such expenditure as an expense when it receives those services". We agree with the alternative view of Jim Leisenring whereas "the Board's proposed amendments would introduce a logical flaw into IAS 38. … The proposed amendment to paragraph 69 includes guidance on the accounting for expenditure on the supply of goods. … Such expenditure is, by its nature, expenditure on a tangible rather than an intangible item" (ED Improvements, IAS 38.AV2-3). In our opinion, IAS 38 is not the applicable standard to the recognition of tangible assets.

51. Moreover, we believe that the wording of the proposed amendments allows for the following interpretation: SIC-32: Intangible Assets – Web Site Costs can be applied by analogy. In case of catalogue costs this would imply that they could be recognised as an intangible asset, for the following reasons: mail order catalogues generate probable future economic benefits through an integrated mail order form. Insofar they are comparable to web sites "capable of generating revenues, including direct revenues from enabling orders to be placed" (SIC-32.8). As these web sites fulfill the requirements of IAS 38.21 and IAS 38.57, this should apply to mail order catalogues also.

IASB Q28: (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?

52. For similar reasons as 28 (a) above, we do not agree with EFRAG and the proposed amendment to clarify the meaning of "as incurred".

Question to constituents:

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

53. We feel this proposed amendment represents a substantial change to IFRS.

54. We consider that this amendment will change practice, although we also believe that the current practice is wide. The current definition of an asset has still not been revised and we believe that any proposed amendments resulting in clarifications on the recognition of assets should be carried out in conjunction with future revisions of the Framework in order to ensure that there is consistency within the definitions used.

Issue 29: Unit of production method of amortisation

IASB Q29: 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?

55. We view the proposed amendment as a clarification that the use of depreciation methods is possible when low levels of depreciation initially are involved.

56. However, we share EFRAG's concerns in that the justification for the proposed amendment is unclear and we question whether the removal of an anti-avoidance sentence can in itself solve a complex issue. It would have been more useful that the Board provide some guidance of what is intended by "the expected pattern of consumption of the expected future economic benefits".

IAS 39 Financial Instruments: Recognition and Measurement

Issue 30: Definition of a derivative

IASB Q30: 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?

Question to constituents:

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

57. We share EFRAG's concerns and we do not support the proposed amendment.

    We are unsure as to whether this will have implications that may result in unintended consequences. However, we agree with the overall rationale presented in paragraph 90 of the EFRAG Draft Comment Letter. The EFRAG letter needs to be clearer on the disagreement with the proposed amendment and what the implications may be. Potential unintended consequences may include cases where new derivatives will need to be recognised should this amendment be accepted, for example:

    - Service concession arrangements where lease payments are dependent on performance of the infrastructure asset;

    - Residual value guarantees (e.g., where a leasing company guarantees the value of a car at the end of the lease term);

    - Real estate management fees where the fees are based on income generated by the underlying property;

    Another unintended consequence may be the application of all the disclosure requirements for embedded derivatives (IAS 39.10) to insurance contracts.

58. Moreover, we would appreciate EFRAG raising the following issue: the main problem remains unsolved: the distinction between financial and non-financial variables continues to be unclear. For example, it remains unclear, whether revenue or EBITDA of an entity are financial or non-financial variables (cp. IFRIC Update July 2006, p. 7, IFRIC Update November 2006, p. 4).

59. Finally, since the Board did not provide for prospective application of the proposed amendments, the preparers would have to re-classify any former contracts. We would appreciate EFRAG advocating for prospective application in case the Board goes ahead with its proposal.

Issue 31: Reclassification of derivatives into or out of the classification of at fair value through profit or loss

IASB Q31: (a) Do you agree with the proposal to amend IAS 39 to clarify definitions of a financial instrument classified as held for trading? If not, why?

60. We agree with EFRAG and the proposed amendment, as we believe this amendment will results in the required clarification.

IASB Q31: (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?

61. We share EFRAG's concerns regarding this proposed amendment and we support the suggested wording in paragraph 100 of the EFRAG Draft Comment Letter.

62. We agree with the additional exception to be added to the list of exceptions proposed, as detailed in paragraph 101 of the EFRAG Draft Comment Letter.

Issue 32: Designating and documenting hedges at the segment level

IASB Q32: 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?

63. We agree with EFRAG and the proposed amendment. We note that this is an issue that has been requested by many practitioners and should therefore result in an improvement in practice.

Issue 33: Applicable effective interest rate on cessation of fair value hedge accounting

IASB Q33: 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 shall be used, when applicable, for the purposes of the remeasurement of the financial instrument in accordance with paragraph AG8? If not, why?

64. We agree with EFRAG and the proposed amendment. We view this amendment as the required clarification.

Issue 34: Treating loan prepayment penalties as closely related embedded derivatives

IASB Q34: Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensate 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?

65. We agree with the proposed amendment. We see this amendment as the required clarification and do not see the usefulness of EFRAG's comment on possible abuses.

IAS 40 Investment Property

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

IASB Q35: 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?

66. We agree with EFRAG and the proposed amendment resulting in that where an entity uses the fair value model in IAS 40, changes in the fair value of such property will be included in profit or loss in the statement of comprehensive income.

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

67. We feel that the question on the possibility to revalue assets under construction in IAS 16 becomes irrelevant, as under the revised IAS 16 the revaluation model is allowed when fair value can be measured reliably. We are unsure as to the reason for raising this question.

Issue 36: Consistency of terminology with IAS 8

IASB Q36: 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?

68. We agree with EFRAG and the proposed amendment.

Issue 37: Investment property held under lease

IASB Q37: Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

69. We agree with EFRAG and the proposed amendment.

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Issue 38: Point-of-sale costs

IASB Q38: 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?

70. We agree with EFRAG's comments and do not support the proposed amendment.

71. We also feel that possible amendments to align different notions should not form part of the Annual Improvements Project.

Issue 39: Discount rate for fair value calculations

IASB Q39: 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?

72. We agree with EFRAG and the proposed amendment.

Issue 40: Additional biological transformation

<u>IASB Q40:</u> Do you agree with the proposal to remove the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41? If not, why?

73. We do not agree with all of EFRAG's comments and the proposed amendment. In our opinion, the exclusion of 'additional biological transformation' from paragraph 21 of IAS 41 conflicts with the objective of the calculation of the present value of expected net cash flows which is still included in IAS 41.21. "In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset …" (IAS 41.20). Pursuant to IAS 41.21 the fair value of a biological asset has to be determined in its present location and condition. If increases in value from additional biological transformation were included, this would infringe upon the principle to show the financial position as at the balance sheet date. Furthermore, there might evolve consequences for other issues via the hierarchy of guidance to which management refers for selection of accounting policies in IAS 8, for example for intangible assets. Finally, it might be too early to integrate the "market participant view" into the IFRSs as long as the project on "Fair Value Measurements" is not finalized.

Issue 41: Examples of agricultural produce and products

<u>IASB Q41:</u> Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

74. We agree with EFRAG and the proposed amendment.