21 October 2011

Our ref: ICAEW Rep XX/11

Mr Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Hans,

Improvements to IFRSs 2011

ICAEW welcomes the opportunity to comment on the exposure draft *Improvements to IFRSs* published by the International Accounting Standards Board in June 2011.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We have the following observations on the Exposure Draft:

IAS 1: We welcome the clarification of the comparative requirements of IAS 1, particularly where there is a retrospective change in accounting policy. However, we do feel that the proposed new paragraph 38B is confusing and would benefit from some re-phrasing. In particular the example cited in this paragraph does not appear to be consistent with the remainder of the text and we question whether it is most effective to locate an example in the centre of a paragraph in this way.

IAS 32 / IAS 16: We note that proposed new paragraph 97L of IAS 32 requires retrospective adoption. This is inconsistent with proposed new paragraph 81G of IAS 16 which does not make this stipulation. In order that the Improvements can efficiently be processed as a single suite of changes it would be better if the two could be aligned.

Other matters: Following on from the observations above about transition, another Improvement that could usefully be made would be to the provide clarification around the definition of 'current period' as referred to in paragraph 24 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Error*. According to paragraph 28(f) of IAS 8:

'when initial application of an IFRS has an effect on the current period or any prior periods, an entity shall disclose for the current period and each prior period presented, the amount of the adjustment for each financial statement line affected.'

We believe that this should be interpreted to mean that when a change in accounting policy has an effect on an accounting period the adjustment should then be disclosed (and conversely when there is

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no effect there is nothing to disclose). Where a new standard is adopted at the start of an accounting period, the effect on the current period is then the adjustment to the opening balance sheet. Following this the new standard is then applied and there is no further effect to disclose.

Some commentators believe that the requirement is rather to disclose the effect on the current period based on what the results would have been had the old standard continued in use. In order to effect this an entity would need to keep its old systems running after the point of changeover to the new standard otherwise the effect on the current period could not be ascertained. This is clearly onerous, and in our opinion unnecessary, and while there is an impracticability exemption, it does not seem appropriate to rely on this. Therefore a useful additional Improvement would be to clarify that this paragraph is intended to carry the former, intuitive, meaning. This Improvement is particularly important in light of the significant changes to IFRS in the pipe-line over the next few years.

We welcome the clarification of IAS 32 to clarify that income tax relating to distributions to holders of an equity instrument and income tax relating to transaction costs of an equity transaction should be accounted for in accordance with IAS 12. However, in our opinion there is an inconsistency between the guidance in paragraph 52B and that in paragraphs 58 and 61A of IAS 12. In paragraph 52B, dividend payments are deemed transactions that are related to profit or loss, while one might conclude under paragraphs 58 and 61A that dividends are an equity transaction with shareholders. Given that IAS 32 is to be amended to clarify its reference to IAS 12, we feel that it would be useful to also resolve the inconsistency within IAS 12 at this time.

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We largely agree. However, it would be useful if the wording of proposed new paragraph 38B to IAS 1 was clarified as set out above.

Question 2

Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We largely agree. However, it would beneficial for the transitional provisions for the Improvements to IAS 16 and IAS 32 to be aligned as set out above, at present these are inconsistent. We also note above useful additional Improvements that could be made to IAS 8 to ease the transition process more generally.

Please do get in touch should you wish to discuss any of the points raised in this response.

Yours sincerely

[Insert your electronic signature here]

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