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24 November 2009

Sir David Tweedie, *Chairman*
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Email: commentletters@iasb.org

Dear Sir David,

Exposure Draft ED 2009/11— Improvements to IFRSs

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

We welcome the IASB's continuing process to deal with certain amendments to IFRSs in an efficient and effective manner. Nonetheless, we have serious concerns regarding the quality and drafting of the 2009 amendments, as there is not always consistency between the Board's intentions as expressed in the introduction, the Basis of Conclusions and the actual wording of the amendment. This is particularly so with respect to the proposed changes to IAS 1, IAS 27, IAS 34 and IAS 40, in which the proposed amendments go beyond the Board's stated intentions and have more widespread consequences than indicated in the introduction or Basis for Conclusions. We also question whether such potentially wide-reaching amendments are within the scope of the annual improvements process.

We are also concerned that some of the proposed amendments and their implications appear to be in conflict with other projects on the Board's agenda. This is particularly the case with the proposed amendments to IAS 27. This apparent conflict is confusing for the Board's constituents, and we would strongly encourage the Board to ensure consistency between projects on its agenda and the annual improvements even if this means delaying an improvement.

With respect to specific proposals made by the Board, we wish to highlight two significant issues.

- We do not agree with the proposal in IAS 27 for basing the impairment assessment of all investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor on IAS 39 requirements regardless of their measurement. We also do not agree with bringing the accounting policy choice of measuring such investments at cost into the scope of IAS 39. We believe that such a policy choice would be inconsistent with IAS 39 (which allows equity instruments to be measured at cost only if their fair value cannot be measured reliably) and IFRS 9 (which only allows classification as fair value through profit or loss or at fair value through other comprehensive income). Moreover, we do not agree with the proposed removal of the option to classify such investments as available-for-sale in accordance with IAS 39 (for entities that continue to apply IAS 39 until application of IFRS 9 is mandatory) as this change is likely to have widespread impact in practice and unintended consequences (e.g. interaction with classification criteria for fair value through profit or loss category in IAS 39) that might not have been fully appreciated. There is no clear rationale for these changes and the proposed amendments go beyond the Board's stated intentions.

- We believe the proposed amendment to IFRS 3 *Business Combinations* on the measurement of non-controlling interests is significant and should be considered separately as part of a dedicated project on NCI. We are of the opinion that its interactions with the Conceptual Framework and Consolidation projects as well as principles for measurement of equity are to be fully considered before making this change.

Our detailed responses to the questions in the invitation to comment 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)20 7007 0907.

Yours sincerely,

Ken Wild

Global IFRS Leader

APPENDIX

Question 1

Amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* – Accounting policy changes in the year of adoption

We agree with the proposed amendment to clarify that a first-time adopter may change its accounting policies or its use of exemptions in IFRS 1 after it has published an interim report in accordance with IAS 34 and before it presents its first IFRS financial statements. We also agree that where this occurs, the first-time adopter should provide specific disclosures to explain the change and update any information provided previously relating to the impact of first-time adoption e.g. IFRS 1 reconciliations.

However, we do not believe that the ED is clear that a first-time adopter which does change its accounting policies or IFRS 1 elections should state explicitly that a change has occurred and what the impact of that change is. Proposed paragraph 27A requires a first-time adopter to comply with IFRS 1.23 and 1.24 in terms of explaining the changes; however, these paragraphs refer only to changes from previous GAAP. They do not refer to changes occurring since previously reported interim financial reports in accordance with IAS 34.

It is also unclear whether the explanation required by paragraphs 27A and 32(c) should be provided for each interim period reported previously. For example, if a change is made in Q3, should all of the reconciliations reported in previous interim periods be restated?

We believe the Standard should explicitly state that in the event of a change to an accounting policy or IFRS 1 election in the period covered by an entity's first IFRS financial statements, the change should be applied retrospectively as at the date of transition to comply with the requirements of IFRS 1.7.

Amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards* – Revaluation basis as deemed cost

We agree with the proposal on the basis that IFRS 1 represents a set of exceptions that aim to facilitate adoption of IFRSs by first-time adopters. We suggest that the Board clarifies how the difference between the original/ deemed cost at the date of transition and the "new" deemed cost at a later date should be recognised.

We understand that the proposal is intended to address a situation in which the law requires that fair value be recorded in the financial statements when there is a reorganisation and we support the proposal in such a context. We are concerned, however, that in other contexts the proposal could result in more than one deemed cost being recorded in an entity's first IFRS reporting period. For example, a private company decides to adopt IFRS because it intends to make an Initial Public Offering during the next 12 months. Such an entity may decide to elect deemed cost for property, plant and equipment at the date of transition. The proposal, as drafted, would permit the entity a subsequent election to record deemed cost based on an event-driven fair value (i.e. the

IPO) within the 12 month period. This would result in two 'fair value as deemed cost' events being recorded in the first IFRS financial statements. If the Board is content with this consequence, we think it would be helpful to acknowledge this fact in the Basis for Conclusions.

However, more generally, we are concerned that, as a result of new jurisdictions adopting IFRSs, the Board regularly adds new exceptions to IFRS 1. We recommend that the Board establish and communicate criteria for proposing any further exceptions to IFRS 1. We also recommend that the Board gives proper attention to consequential amendments to IFRS 1 arising from new IFRSs or amendments to existing IFRSs as these are issued.

Amendment to IFRS 3 *Business Combination* – Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

We agree with this proposal but have two observations.

We recommend that the additional transitional provisions proposed in paragraph 44H of IFRS 7, paragraph 97E of IAS 32 and paragraph 103L of IAS 39 are amended to state that they apply on a retrospective basis from the date the entity first applied IFRS 3 (2008). This would clarify how an entity that, on adopting IFRS 3 (2008), may have chosen to account for all contingent consideration arrangements in accordance with these standards should apply the clarifying amendments.

The Board proposes to amend IFRS 7 paragraph 44B, IAS 32 paragraph 97B and IAS 39 paragraph 103D to state that in certain circumstances contingent consideration should be accounted for 'in accordance with the requirements in paragraphs 32-35 of IFRS 3 (as issued in 2004).' This is an inappropriate amendment for at least two reasons. Firstly, IFRS 3 (2008) paragraph 68 states that IFRS 3 (as issued in 2008) supersedes IFRS 3 as issued in 2004—consequently the latter is no longer in effect and has no authority in IFRS. Secondly, in jurisdictions in which IFRS is incorporated into local law or regulation, IFRS 3 (as issued in 2004) will have been repealed or superseded by IFRS 3 (as issued in 2008) and entities in these jurisdictions will have no legal basis for complying with the requirement. The Board must make a more considered amendment to IFRS 3 to achieve its aim, most likely incorporating the requirements of IFRS 3 (as issued in 2004) paragraphs 32-35 in IFRS 3 (as issued un 2008) as part of the transition requirements.

Amendment to IFRS 3 *Business Combination* – Measurement of non-controlling interests

We strongly disagree with the Board's proposal to amend IFRS 3 *Business Combinations* (2008) with respect to the measurement of non-controlling interests.

This proposal is significant and should be re-considered as part of a separate project on NCI and exposed separately from the annual improvements process. The introduction of the term 'non-controlling interests' compared to 'minority interests' as part of IFRS 3

(2008) was widely understood to be a change of terminology only. Therefore, we are particularly concerned that the proposed amendment is widening the definition of NCI without a clearly set out rationale. We believe that the proposed solution is too simplistic and does not respond to the fundamental questions of what is NCI and what are the criteria used to measure it.

For example, conceptually, an option holder has a *future* entitlement to a pro rata share of the entity's net assets in the event of liquidation (assuming they exercise the option). Such option holders do not have a *current* entitlement to such net assets. Such interests are not currently considered in measuring the NCI at the date of the business combination. It is not clear whether the measurement is fixed at the date of business combination or whether there are ongoing measurement issues. The value of goodwill will potentially be higher as a consequence of measuring additional NCI (e.g. options).

This issue is also closely linked to the Board's Conceptual Framework (Reporting Entity) project (considering the holding company versus the group concepts of consolidation). Any amendments made to IFRS 3 relating to the measurement of non-controlling interests may be considered to pre-empt the outcomes of the Conceptual Framework project. There are also links to the consolidation project.

We recommend that the Board does not proceed with any amendment to the measurement of non-controlling interests until such time as the outcomes of the Conceptual Framework (Reporting Entity) and consolidation projects are finalised.

We would also like to take this opportunity to raise our general concern with the direction the Board is taking when considering measurement of equity. The Board is requiring equity in the form of the expanded concept of 'non-controlling interest' to be measured on a fair value basis; however, in doing so the Board has not clearly established a principle for measurement of equity. Traditionally, in the absence of specific guidance requiring another measurement basis, equity has been measured as a residual in accordance with the *Framework*. We would support the establishment of a clear measurement principle for equity. Further, we believe that such a principle is more appropriately provided via amendment to either IAS 27 or IAS 32, rather than in the requirements of IFRS 3.

If the Board decides to proceed with the amendment, we have a number of concerns in relation to the current drafting of the proposal:

- It is not clear whether the measurement of the other components of non-controlling interest at fair value or another measurement basis as required by IFRSs is an accounting policy choice, or whether the option to measure such components at fair value is only available where there is no other measurement basis as required by IFRSs.

- If the option to measure other components of non-controlling interest at fair value or another measurement basis as required by IFRSs is an accounting policy choice, it is unclear whether this option is available on an instrument by instrument basis, or for each business combination.

- When referring to *"other measurement basis as required by IFRS"*, the amendment should specify at what date such measurement should take place. We believe that the Board intended this date to be the date of the business combination. However, we note that paragraph BC1 indicates that the equity component of a convertible instrument shall be measured in accordance with IAS 32 which requires measurement at the date of issuance.

- The amendment does not consider the interaction of these proposed requirements with the 'reverse acquisition' principles. In particular, paragraph B24 of IFRS 3 only appears to contemplate non-controlling interests that represent a current entitlement to the legal acquiree's net assets. It is unclear whether any options and similar instruments of the legal acquiree (the accounting acquirer) should be remeasured in accordance with the requirements of the proposed amendments, as these instruments effectively become a non-controlling interest in the post-combination consolidated financial statements. The resetting of the values of such equity interests seems counterintuitive in a reverse acquisition as it has the effect of remeasuring the accounting acquirer's equity.

- The Board should clarify the interaction of IFRS 3 and IAS 36 when applying the proposed amendment. The value of goodwill will potentially be higher as a consequence of measuring additional NCI.

- We would ask the Board to clarify the interaction of the proposed amendments with IAS 32 in relation to a puttable financial instrument that is classified as a liability in a subsidiary and whether it should be included in NCI at the group level because the instrument will entitle the holder to a pro-rata share of the entity's net assets on liquidation.

- We note that based on the proposed wording "present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation", it appears that the only instruments that would be measured at fair value or proportionate share of the acquiree's identifiable net assets would be common shares. In particular, it appears that preferred shares (even those that participate on a pro rata basis but subject to a maximum) would not be measured as such. Therefore we would like the Board to clarify whether this was the intention of the amendment.

Amendment to IFRS 3 *Business Combination* – Un-replaced and voluntarily replaced share-based payment awards

We agree with the Board's proposal to amend the application guidance in IFRS 3(2008) to require the acquirer to apply paragraphs B57-B62 to share-based payment transactions that are replaced voluntarily as part of a business combination. We also agree with the Board's proposal to align the terminology in IFRS 3(2008) with that of IFRS 2 *Share-based Payment.*

With respect to un-replaced share-based payment awards, we agree that in principle replaced and un-replaced share-based payment should be treated in the same manner. However, we think that this issue is so closely linked to the measurement of NCI and accordingly that the two issues should be addressed together. Consequently, we do not agree with the amendment to apply paragraphs B57-B62 to un-replaced share-based payment transactions.

However, should the Board proceed with the amendment as proposed, we believe that the inclusion of the additional clarification in paragraph 30 which notes that "[t]he acquirer shall measure a liability or an equity instrument related to <u>share-based payment transactions of the acquiree or</u>…" necessitates a clarification later in the paragraph that the application of IFRS 2 is at the date of the business combination. As such we propose that the paragraph be amended as follows to clarify the intention of the Board:

> The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in IFRS 2 *Share-based Payment* <u>at the acquisition date</u>. (This IFRS refers to the result of that method as the 'market-based measure' of the award share-based payment transaction.)

Further, we believe that paragraph B56 should be amended to reflect the fact that the distinction between situations in which entity chooses to replace awards versus those in which it is obliged to replace is no longer neccessary. Our suggested amendments are as follows:

> An acquirer may exchange its share-based payment awards* (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. ~~If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:~~
>
> ~~(a) the terms of the acquisition agreement;~~
>
> ~~(b) the terms of the acquiree's awards; or~~
>
> ~~(c) applicable laws or regulations.~~
>
> However, in some situations, acquiree awards may expire as a consequence of a business combination. If the acquirer replaces those awards even though it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination.

We also query why the terminology in paragraph B56 has not been amended to be consistent with IFRS 2, rather than footnoting with an asterisk the fact that the terminology should be read to be the same.

Consistent with our comments on measurement of non-controlling interests, we believe the Board should clarify the subsequent accounting for such share-based payments, both within the measurement period and after the measurement period. The proposed amendments to the choice of measurement for non-controlling interests would presumably result in the vested and 'pre-acquisition' components of share-based payment arrangements being considered a non-controlling interest that is measured at fair value or in accordance with IFRS 2.

We also believe that the uncertainty around the treatment of subsequent movements in the value of this non-controlling interest might have implications for these share-based payment arrangements after the acquisition date. In addition, it is unclear how any subsequent reversals of share-based payment expenses under IFRS 2 should be treated, e.g. could part of such a reversal be recognised as an adjustment to goodwill during the measurement period (if the other requirements of IFRS 3 for such treatment are met) and how is the reversal of any expense to be recognised if it occurs outside the measurement period?

Amendment to IFRS 5 *Non-current Assets held for Sale and Discontinued Operations* – Application of IFRS 5 to loss of significant influence over an associate or a jointly controlled entity

We agree with the proposed amendment.

We note that it would be useful to include in the text of the Standard, the last sentence of paragraph BC2 (i.e. "The [Board also concluded that an] entity shall not classify as held for sale its investment in an associate or a jointly controlled entity in accordance with IFRS 5 when it is highly probable that control will be obtained, because there will be no sale.").

Amendment to IFRS 7 *Financial Instruments: Disclosures* – Clarification of disclosures

Due to the variety of proposed amendments we have commented on each proposed amendment separately.

IFRS 7.33A

We agree with the Board's proposal to emphasise the interaction between qualitative and quantitative disclosures with the addition of paragraph 33A. We agree that the qualitative disclosures required by IFRS 7.33 should support the quantitative disclosures required by IFRS 7.34/35.

IFRS 7.34

We agree with the Board's proposed amendment to paragraph 34. We agree that without the amendment, paragraph 34 implies that other disclosures in IFRS 7 are required even if they are not material, which we understand is not the Board's intention.

IFRS 7.36(a)

We agree with the Board's intention to focus on reporting an entity's maximum exposure to credit risk in a way that is more meaningful to users. However, we are concerned that the proposed amendment may lead to information being spread more disparately within the financial statements in a manner which is detrimental to clarity. For example, where the carrying amount of financial assets represents the maximum exposure in all but a few cases, the user is required to cross-refer across all the notes on financial instruments in the financial statements to ascertain where the maximum exposure to credit risk differs to the carrying amount.

As an alternative to the proposal we suggest that the amount which best represents maximum exposure and also the related financial effect of collateral along the lines proposed by the amendment to 36(b) could be disclosed together with the carrying amount, with a tabular format being the preferred method of disclosure. This would allow the user to ascertain where maximum exposure to credit risk differs to credit risk across all assets and how the maximum exposure to credit risk is mitigated by collateral. This alternative is laid out in more detail in our response to the amendment to 36(b) below.

IFRS 7.36(b)

We agree with the Board's intention that the financial effect of collateral should be disclosed as this approach provides more meaningful information to users. However, we question whether the proposed wording would meet this objective in the light of the removal in 36(a) of the requirement to disclose the maximum exposure to credit risk for certain instruments. For those instruments, the financial effect of collateral would require disclosure under 36(b) but there would be no direct reference to the exposure which is being mitigated.

In addition, the proposed amendment requires *a description and the financial effect* of collateral without explicitly requiring numeric disclosure in this area, and without defining 'financial effect'. We believe that the danger exists of this being misinterpreted such that entities could provide a non-specific description that collateral mitigates the maximum exposure to credit risk without explaining *how* and *to what extent* the collateral mitigates the exposure.

As noted above we believe that a more meaningful disclosure in this area would combine the requirements of 36(a) and 36(b) into a single requirement, which may be provided in a tabular format unless another format is more appropriate. Under this approach, an entity would be required to disclose, per class of financial asset, the carrying amount, maximum exposure to credit risk and financial effect of collateral in separate columns. If an asset is fully collateralised or over-collateralised, the amount disclosed for the financial effect of collateral would be equal to the maximum exposure. If an asset is not fully collateralised, the extent of under-collateralisation would be illustrated in the column showing the financial effect of collateral. Such a table may be included as a detailed requirement of the amended Standard or as an Illustrative Example.

IFRS 7.36(d)

We understand the Board's concern that it is difficult for entities to identify financial assets that may have *become* past due or impaired had they not been renegotiated and we agree that identification and disclosure of such financial assets should not be required. However, we disagree with the proposed deletion of paragraph 36(d) as we believe this disclosure is still relevant for financial assets that *were already* past due or impaired before renegotiation. Without retention of the disclosure requirement the simple act of renegotiation immediately prior to a reporting date would result in such assets being viewed as "performing assets" which we do not believe is a faithful representation, particularly in the context of the disclosure requirements of paragraph 37 for financial assets which are past due or impaired. We therefore believe paragraph 36(d) should be amended to read as follows:

> "*the carrying amount of financial assets that were past due or impaired in the current reporting period whose terms have been renegotiated*"

IFRS 7.37

We agree with the proposed amendment. We recognise that the effect of collateral is in any case considered in assessing whether an asset which is past due is subject to an impairment loss, and in determining the revised carrying amount for an impaired asset.

IFRS 7.38

We agree with the proposed amendment. We agree that amending the disclosure requirement in this way is in line with the objective of IFRS 7 to disclose information around the nature and extent of credit risk as at the reporting date.

Amendment to IAS 1 *Presentation of Financial Statements* – Clarification of statement of changes in equity

We agree with the Board's intention to clarify that entities are permitted to present the reconciliation requirement for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

However, we disagree with the proposed wording in the exposure draft as it goes beyond the Board's intentions as indicated by its Basis of Conclusions. The proposed wording could be read as permitting the entire statement of changes in equity to be presented in the notes to the financial statements. We do not believe that this was the intention of the Board, nor do we believe that such an amendment would result in information that is useful to users of financial reports or improve comparability between entities.

We believe that the amendment should clarify that only the disclosures specified by paragraph 106(d)(ii) may be presented either on the face of the statement of changes in equity or in the notes to the financial statements. This can be achieved by amending paragraph 106 as follows:

> *An entity shall present a statement of changes in equity showing in the statement:*
>
> *(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;*

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) [deleted]

(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) each item of other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interest in subsidiaries that do not result in a loss of control.

An entity may alternatively present the aggregate of the items required by (ii) in the statement of changes in equity with each item separately disclosed in the notes.

We also recommend that the Illustrative examples in the Guidance accompanying IAS 1 be amended to reflect examples of both the presentation of the reconciliation of classes of accumulated other comprehensive income in the statement of changes in equity, and in the notes to the financial statements.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Change in terminology to the qualitative characteristics

We agree with the intention of the proposed amendment. However, we question the timing of this modification: it would appear more appropriate to make this change as a consequential amendment at the same time as issuing the final chapter on Phase A of the improved Conceptual Framework, with the same effective date.

We note that, in the proposed amendment to IAS 8, the term "users" was replaced by "existing and potential equity investors, lenders and other creditors in making decisions".

We note that the term "users" has been used in other IFRSs (e.g. IAS 1 paragraph 7 and IAS 8 paragraph 5 in relation to the definition of "material"). If the IASB would like to replace the term "users", it should make sure that equivalent changes are made to other applicable IFRSs to ensure consistency.

In addition, we note that in paragraph 10(a) it would be clearer to add the definition of "relevant" given by the Framework, i.e. 'Information is relevant if it is capable of making a difference in the decisions made by users in their capacity as capital providers. Information about an economic phenomenon is capable of making a difference when it has predictive value, confirmatory value or both."

IAS 27 *Consolidated and Separate Financial Statements* – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

We strongly disagree with the Board's proposal to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities and associates for impairment. In addition, we disagree with the proposed amendment as drafted, bringing the option to measure investments in subsidiaries, jointly controlled entities and associates at cost within the scope of IAS 39 and limiting the measurement options available under IAS 39. In our view, these amendments go beyond the stated intention of the Board and no clear rationale has been provided for such changes.

Applying an IAS 39 impairment model

We strongly disagree with the Board's proposal to apply IAS 39 for impairment testing for all investments in subsidiaries, jointly controlled entities and associates. We believe the appropriate Standard to be applied for impairment testing of subsidiaries; jointly controlled entities and associates in the separate financial statements of the investor should be driven by their measurement. In other words, IAS 36 *Impairment of Assets* applies to those investments that are measured at cost (in accordance with IAS 27), whereas IAS 39 applies to those investments that are measured in accordance with IAS 39. Many investments in subsidiaries are currently measured using a value in use model (as permitted by IAS 36). We therefore recommend that the Board amends the scope of IAS 36 to clarify that IAS 36 applies to investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor measured at cost.

Should the IASB proceed as proposed, amendment should be made to delete IAS 36 paragraph 4. IAS 36 paragraph 4 states: "This Standard applies to financial assets classified as subsidiaries, associates and joint ventures."

Measurement at cost in accordance with IAS 39

We do not agree with the proposal to bring investment measured at cost into the scope of IAS 39. This amendment goes beyond the stated intention of the Board.

The amendment is inconsistent with IAS 39 (which allows equity instruments to be measured at cost only if their fair value cannot be measured reliably) and IFRS 9 (which only allows classification as fair value through profit or loss or at fair value through other comprehensive income). Further, it is not clear how the requirements of IFRS 9 will interact with the proposed amendments to IAS 27.

Finally, the Board has provided no justification in the Basis for Conclusions to the proposed amendment to support these decisions. We do not believe that the Board has considered the reasons for, and the wider implications of, making this amendment and would strongly recommend the Board not proceed with this proposed amendment. Instead, we recommend the current wording be retained, except that we recommend IAS 27 be amended to clarify the definition of cost to include directly attributable expenditure necessary to obtain the investment. Particular attention should be given to the fact that a carry-over basis is often used for common control transactions, and therefore a reference to cost under IAS 39 would not be appropriate for common control transactions.

Limitation of options under IAS 39

We disagree with the Board proposal to limit the options available to entities when accounting for such investments in subsidiaries, jointly controlled entities and associates in their separate financial statements. This amendment goes beyond the stated intention of the Board.

The current wording of IAS 27 permits an entity to measure such investments either at cost or in accordance with IAS 39. IAS 39 includes two potential classifications for such investments:

(a) available for sale

(b) at fair value through profit or loss

IAS 39 includes a number of criteria an entity is required to meet for financial assets to be classified as at fair value through profit or loss. We believe that many investments would not otherwise meet the strict criteria in IAS 39 to be classified as at fair value through profit or loss. Further, the implication of this amendment is that the available-for-sale classification is *only* available to investments for which an entity does not have at least significant influence. This outcome appears to be counterintuitive.

IAS 27 *Consolidated and Separate Financial Statements* – Transition requirements for amendments arising as a result of IAS 27 (as amended in 2008)

We agree with the proposed clarification that the amendments as a result of IAS 27 made to IAS 21, IAS 28 and IAS 31 require prospective application.

IAS 28 *Investments in Associates* – Partial use of fair value for measurement of associates

We agree with the proposal to amend IAS 28 to state that different measurement bases can be applied to portions of an investment in an associate. We believe that permitting the use of a mixed measurement model when part of an investment is managed on a fair value basis better reflects management intent to the users of the financial statements.

Nonetheless, we believe that in order to ensure consistent application of the amendment the Board should clarify the unit of account, i.e. the smallest component that would represent a "portion of the investment" in accordance with paragraph 1A. In our opinion the smallest component is the direct interest held by a particular entity, in other words a direct interest cannot be split into different "portions" for the purposes of applying paragraph 1A.

We also believe that the IASB should provide further guidance on practical scenarios. For example, Entity A has two subsidiaries Entity B (a venture capital organisation) and

Entity C (neither a venture capital organisation nor a mutual fund). Entity B has 29% equity interest in Entity D and Entity C has a 1% equity interest in Entity D that it holds for trading purposes. It appears that the proposed requirement suggests that Entity A should firstly consider whether Entity D is an associate (i.e. the entire 30%). Entity A is then required to apply paragraph 1 regarding how these investments should be measured. Assume that the 29% equity interest is designated as FVTPL on initial recognition. It appears that the literal meaning of the proposed requirement would be that the remaining 1% equity interest should be accounted for using the equity method. We do not believe that such an accounting treatment faithfully represents the 1% equity interest (that is held for trading purposes). We therefore recommend that the Board clarifies that the assessment of whether an entity has significant influence in an associate should exclude any portions of the investment to which the entity has applied the scope exclusion in paragraph 1 of IAS 28.

IAS 34 *Interim Financial Reporting* – Significant events and transactions

We generally agree with the intention of the Board to emphasise the disclosure principles in IAS 34. However, we do not believe that the proposed amendments achieve the Board's intentions. In our view, the proposed modification of paragraphs 15, 15B and 16A does not go in that direction. The lists of requirements of 15B and 16A are unclear as to which are the necessary/ required criteria to determine whether a transaction should be classified in paragraph 15B or 16A. Moreover, we are of the opinion that the current structure of the requirements (with the minimum requirements in paragraph 16, supplemented by examples in paragraph 17) better reflects the disclosure principle in IAS 34. The proposed structure would create two lists of requirements, whose relationship is unclear. The former examples from paragraph 17 would precede the purported principle which is in our view counterintuitive and likely to lead to confusion in applying the amended IAS 34.

Therefore, we recommend that the Board retains the current structure of IAS 34 and order of paragraphs, with limited changes as follows:

- Include the proposed new sentence at the end of paragraph 15. However, instead of referring to "equivalent information", the wording should be amended to refer to "relevant information", consistent with paragraph 15C. This would avoid potential confusion around the meaning of "equivalent information" which could be read as requiring the same level of detail for disclosures as required in the annual financial statements.

- Include the new examples in proposed paragraph 15B (h), (k), (l) and (m) as paragraph 17 (h), (k), (l) and (m).

- Include new proposed paragraph 15C as paragraph 17A.

Should the proposed amendment go ahead we suggest that, in addition to our comments above, the wording of 'significant changes' and 'significant transfers' in paragraphs 15B(h) and (k) is removed, as paragraph 15 already states that only significant events and transactions should be explained.

IAS 40 *Investment property* – Changes from fair value model to cost model

We do not agree with the Board's proposals to amend IAS 40 to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale; to add a requirement to present such items as a separate category in the statement of financial position; and to require disclosures consistent with IFRS 5.

We agree that IAS 40 may be regarded as unclear with respect to the classification of an investment property when management intends to sell it i.e. whether the investment property should be classified as inventory in accordance with IAS 2 or as a non-current asset held for sale in accordance with IFRS 5. We believe that it is useful to clarify that IFRS 5 applies to investment properties that meet the criteria to be classified as held for sale and think that the proposed paragraph 58A(a) achieves this objective. For the avoidance of doubt, in our view, proposed paragraph 58A(a) implies that all aspects of IFRS 5 would apply to an investment property classified as held for sale.

We disagree with the introduction of separate presentation and disclosure requirements when the held for sale criteria of IFRS 5 are not met for the investment property (proposed paragraph 58A(b)). In our view this is inconsistent with the principles of IFRS 5 and is likely to cause confusion among users of financial statements in distinguishing between investment properties that meet the criteria to be classified as held for sale and those that do not. We suggest that the Board delete paragraph 58A(b) entirely.

However, the proposed removal of paragraph 57(b) and the related words in paragraph 58, together with the Board's comments in BC2, has the result that there is no longer any requirement to transfer investment properties to inventory, even if facts and circumstances might warrant it. For example, an entity may start to develop a pattern of buying and selling investment properties over a short period of time, and thereby not necessarily holding the property to earn rentals and/or capital appreciation. In such a situation, it would seem appropriate to consider whether the investment properties in question should be transferred to inventory, due to the change in an entity's business intention. We believe, with the proposed deletion, the circumstances under which such a transfer might be appropriate would not be as apparent. We do not believe that this was the Board's intention when proposing the amendment.

If the Board decides to proceed with the deletion of paragraph 57(b), i.e. the option to transfer investment property for which development with a view to sale is commenced to inventory, it should be noted that this does not seem to flow through to paragraphs 59 and 60, in which transfers to inventory are still mentioned. We also note that the introduction to the amendment does not seem to be consistent with the changes actually proposed in the ED. Specifically, the opening paragraph refers to investment property "carried at fair value", however, paragraph 57 does not differentiate between investment property that is measured at fair value or using the cost model. The removal of the requirement to transfer out of investment property appears to be applicable to all investment property regardless of accounting policy selection.

IFRIC 13 *Customer Loyalty Programmes*: Fair value of award credit

We agree with the amendment as proposed.

Question 2

We agree with the proposed transition provisions and effective date of all the amendments apart from Amendment to IFRS 5.

We note that proposed effective date of the Amendment to IFRS 5 of 1 January 2010 would be retroactive as publication of the Annual Improvements 2010 is not expected before Q2 2010. We understand that this was not the intention of the Board. Consequently we propose to align the effective date to the other amendments (1 January 2011).

Question 3

As we stated in our response to Question 1, we agree in principle with the proposed amendment. For more detailed comment please refer to our response to Question1.

Question 4

As we stated in our response to Question 1, we agree in principle with the proposed amendment. For more detailed comment please refer to our response to Question1.

Question 5

As we stated in our response to Question 1, we agree with the clarification in respect of the application of IFRS 5 to investment properties, but we disagree with the removal of the requirement for investment property that is developed with a view to sale to be reclassified to inventory. Therefore, we believe that that is should be neither included within the Improvements to IFRSs, nor addressed in a separate project.