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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 3. November 2009
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Dear Sir David

Re.: IASB Exposure Draft 2009/11 – Improvements to IFRSs

We appreciate the opportunity to comment on the exposure draft mentioned above and would like to submit our comments as follows:

Proposed amendments to IFRS 7: Disclosures about the nature and extent of risks arising from financial instruments

The Board proposes to remove the requirement in paragraph 37(c) of IFRS 7 to disclose the fair value of collateral held as security and other credit enhancements. Since the IASB believes that information on the financial effect of such assets is, nevertheless, useful to users, the Board proposes to require disclosure of the financial effect of collateral held as security and other credit enhancements in paragraph 36(b).

In our view, such information is important with regard to financial assets that are either past due or impaired. We doubt whether information on the financial effect is necessary in respect of all financial instruments that are exposed to credit risk.

We acknowledge the problems mentioned in paragraph BC5 of the exposure draft concerning the usefulness of the disclosure currently required in paragraph 37(c): Within a class of assets some assets might be over-collateralised while others might be under-collateralised. Hence, aggregate disclosure of the fair value might be misleading. However, we believe that the proposed disclosure of the "financial effect" of collateral held as security and other credit enhancements will only lead to meaningless and useless disclosures.

Therefore, we favour an improved precise disclosure requirement in paragraph 37(c) with regard to financial assets that are either past due or impaired instead of the proposed vague requirement in paragraph 36(b) with regard to all financial instruments that are exposed to credit risk.

Proposed amendments to IAS 1: Clarification of statement of changes in equity

According to paragraph BC1 of the exposure draft, the Board was asked to clarify its intention in paragraph 106(d) of current IAS 1 to require a reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. Some constituents believed this requirement was excessive.

The Board intends to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income and to permit entities to present the reconciliation requirements for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes. However, the proposed wording of paragraph 106 allows entities to present <u>all</u> information mentioned in this paragraph in the notes, thus making the statement of changes in equity redundant. Another drawback of the Board's proposal is that too much flexibility might impair the comparability of the statements of changes in equity across entities.

Therefore, we support the alternative approach that is described in the Agenda paper 4C "Presentation of the statement of changes in equity" (Board Meeting February 2009), specifying a minimum content on the face of the statement of changes in equity, similar to how current IAS 1 requires minimum line items for the statement of financial position and the statement of comprehensive income. The main features of this alternative approach are as follows:

- The required minimum components of equity that should be reconciled on the face of the statement of changes in equity would be: share capital, retained earnings, total accumulated other comprehensive income, non-controlling interest and total equity. The minimum line items that should be included for each component of equity would be: profit or loss, total comprehensive income, the effects of retrospective application or retrospective restatement in accordance with IAS 8 and transactions with owners in their capacity as owners.

- An entity would be allowed either to present the reconciliation of each class of accumulated other comprehensive income on the face of the statement of changes in equity or to present a reconciliation of total accumulated other comprehensive income on the face of the statement of changes in equity and disclose the reconciliation of each class of other comprehensive income in the notes.

This alternative approach gives flexibility on the presentation/disclosure of each class of accumulated other comprehensive income alleviating concerns that the required information in the statement of changes in equity was excessive. In contrast to the Board's proposal, it provides a clear format of the statement of changes in equity and ensures comparability across entities by specifying minimum components. In our view, it creates no inappropriate additional presentation requirements.

Proposed amendments to IAS 8: Change in terminology to the qualitative characteristics

The Board proposes to amend IAS 8 to be consistent with the terminology changes made in the forthcoming Conceptual Framework that will replace the Framework for the Preparation and Presentation of Financial Statements. In this context, the IASB applies a split approach (see paragraphs BC1 and BC2 of the exposure draft):

- <u>IAS 8</u> provides guidance on developing and applying accounting policies when there are no specifically applicable IFRSs. That guidance is based on the qualitative characteristics in the Framework. Because this guidance is essential to the application of IAS 8, the Board decided that the paragraphs that refer to the qualitative characteristics should be updated to use the new terminology.
- In contrast, the Board decided to review and update <u>other IFRSs</u> to use the new terminology when those IFRSs are being amended for other reasons.

In our view, this split approach results in temporary inconsistencies throughout the IFRSs because only IAS 8 would be updated at short notice, whereas other IFRSs dealing with similar issues retain the old terminology for some time (e.g. paragraphs 17, 46 and 60-64 of IAS 1). We prefer the IASB update the terminology in <u>all</u> IFRSs once the new Framework has been issued.

Proposed amendments to IAS 27: Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The exposure draft contains a proposal to amend IAS 27, whereby the investor shall apply the requirements of IAS 39 for the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates (paragraph 38D). In general, we agree with the proposal since the purpose of separate financial statements is on the performance of the assets as investments. Hence, testing for impairment of those investments should be based on the requirements of IAS 39, not on the provisions of IAS 36.

However, the Board should clarify some aspects of its proposal. For example, the proposed paragraph 38 is drafted as follows: “When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:

(a) at cost, or

(b) at fair value through profit or loss,

each in accordance with IAS 39 … Investments accounted for at cost shall be accounted for in accordance with IFRS 5 … when they are classified as held for sale … The measurement of investments accounted for at fair value through profit or loss in accordance with IAS 39 is not changed in such circumstances.” The last sentence implies that the measurement provisions of IFRS 5 apply to investments that are accounted for at cost. However, the first sentence of the proposed paragraph 38 refers to a measurement “at cost … in accordance with IAS 39”. Therefore, one could argue that such investments are also financial assets within the scope of IAS 39. Consequently, the measurement provisions of IFRS 5 would *not* apply (pursuant to IFRS 5.5(c) and IFRS 5.BC13). We believe that a clarification is necessary in the final amendments to IAS 27.

Moreover, if the investor has to apply the requirements of IAS 39 for the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates some aspects of the required impairment test remain unclear: IAS 39.66 describes the amount of the impairment loss as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. However, IAS 39.66 only applies to unquoted equity instruments that are not carried at fair value because the fair value cannot be reliably measured. How should the amount of the impairment loss be measured in all other cases? If fair value is applicable in these cases, a well-founded departure from quoted marked prices in order to reflect a blockage factor, a control premium etc. would be prohibited (according to IAS 39.IG E.2.2).

Finally, the proposed wording of paragraph 38 of IAS 27 leads to a curtailment of accounting options that are currently available:

- At present, paragraph 38 permits an entity that prepares separate financial statements to account for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39. Investments that are accounted for "in accordance with IAS 39" can be classified either as "financial assets at fair value through profit or loss" or as "available-for-sale financial assets."
- The amended paragraph 38 reads as follows: "When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either … at cost or … at fair value through profit or loss, each in accordance with IAS 39". Consequently, investments cannot be classified as "available-for-sale financial assets" any more.

In our view, such a curtailment of accounting options is neither appropriate nor justified as part of the annual improvements process.

Proposed amendments to IAS 40: Change from fair value model to cost model

The Board proposes to remove the requirement to transfer investment property to inventory when it will be developed for sale. Therefore, when an entity decides to dispose of an investment property, it continues to treat the property as an investment property until it is derecognised, and does not treat it as inventory.

In this context, we have some concerns with regard to the proposed paragraph 58A(b) requiring that an entity that decides to dispose of an investment property shall continue to apply IAS 40 and shall provide the disclosures required by paragraphs 38 and 40-42 of IFRS 5 if the investment property does <u>not</u> meet the criteria to be classified as held for sale. In our view, as long as an investment property does not meet the criteria to be classified as held for sale requiring disclosures of IFRS 5 is neither necessary nor consistent with other IFRSs, for example IAS 16.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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