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Our ref MT/288
Contact Mary Tokar

25 November 2009

Dear Mr Kraehnke

Exposure Draft of *Proposed Improvements to IFRSs*

We appreciate the opportunity to comment on the International Accounting Standards Board's (IASB or the Board) Exposure Draft of *Proposed Improvements to IFRSs* (the ED) published in August 2009. This letter expresses the views of the international network of KPMG member firms.

Appendix 1 to this letter contains our detailed responses to the proposals about which we have fundamental concerns, which are:

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

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

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

- IAS 40 *Investment Property* – Change from fair value model to cost model

We are particularly concerned with the proposed amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which is a consequential amendment resulting from the conceptual framework project. We believe that such consequential amendments should be considered as part of the conceptual framework project, as is the case when there are amendments to other IFRSs when an IFRS or amendment is finalised, and not as part of the annual improvements process. Additionally, we believe that proposing consequential amendments that arise from a document that has yet to complete the stages of due process necessary to be published in final form is not appropriate.

Appendix 2 to this letter contains our detailed responses to the proposals that broadly we support but about which we have comments or suggestions, which are:

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

- IFRS 3 *Business Combinations* – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

- IFRS 3 *Business Combinations* – Measurement of non-controlling interests

- IFRS 3 *Business Combinations* – Unreplaced and voluntarily replaced share-based payment awards

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

- IFRS 7 *Financial Instruments: Disclosures* – Disclosures about the nature and extent of risks arising from financial instruments

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

- IAS 27 *Consolidated Financial Statements* – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31

- IFRIC 13 *Customer Loyalty Programmes* – Fair value of award credit

We note that the effective date of certain amendments to standards affected by Phase II of the business combinations project lags the effective date of those standards by a period of one year. In order to minimise the risks of such instances recurring, we encourage the Board to strengthen its procedures for reviewing IFRSs before and after they are issued. We also recommend that the Board endeavour to communicate the likely effect of these amendments to constituents in advance of publishing the *Improvements to IFRSs*. We believe that this would encourage entities to anticipate, to the greatest degree possible, the impact of these amendments as they formulate their accounting policies for adoption of IFRS 3 (2008) and related amendments to other standards.

We support the following of the Board's proposals without comment or suggestion, which we note are consistent with our current interpretation of the existing guidance on the related subjects:

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

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

Please contact Mary Tokar or Bruce Darton at +44 (0) 20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

Appendix 1

This appendix contains our detailed responses to the proposals about which we have fundamental concerns.

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

We agree that the Board will need to consider amending IAS 8 and potentially other IFRSs based on the output of the ongoing joint conceptual framework project with the U.S. Financial Accounting Standards Board (FASB). However, we believe that the annual improvement process (AIP) is not the appropriate avenue for making such an amendment. The impact of a new IFRS on, or amendment to, other IFRSs typically is considered in conjunction with the new IFRS or amendment being finalised; we do not see a reason for the conceptual framework project to follow a different approach. We recommend that the Board consider the impact of the forthcoming conceptual framework on all IFRSs, and whether any terminology changes need to be made, in conjunction with the overall conceptual framework project, rather than as part of the AIP.

We have commented separately on the IASB's and the FASB's (together, the Boards) discussion papers and exposure drafts (ED) about the *Conceptual Framework for Financial Reporting* (the Framework). As noted in those responses, we acknowledge that later phases of the Boards' joint framework project may include amendments to the Framework completed in previous phases. Accordingly, we believe that the Boards should consider, and constituents should have the opportunity to comment on, the entire revised Framework before it is finalised. We believe that consequential amendments should be considered in conjunction with the finalisation of the revised Framework.

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

We note from paragraph BC1 of IAS 27 *Consolidated Financial Statements* that the Board believes that the amendment gives certainty over whether IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* should be used to test for impairment. We believe that uncertainty should not exist currently given the drafting of IAS 36 and IAS 39. IAS 36 is applied in accounting for the impairment of all assets subject to a list of exceptions provided in paragraph 2 of that standard; none of investments in subsidiaries, associates or joint ventures that are accounted for at cost are included in that list of exceptions. Such investments are financial assets outside of the scope of IAS 39 and so are not scoped out of IAS 36 by paragraph 2(e) of IAS 36. The recently added paragraph 12(h) of IAS 36, which specifies indicators that such investments may need to be tested for impairment, is based on this premise. Accordingly, in our view there should not be doubt that IAS 36 applies to such investments and we believe that this rationale for the proposed amendment is flawed.

Additionally, we note that both IAS 36 and IAS 39 involve the use of a discounted cash flow model in assessing impairment. For example, the shares of a non-listed subsidiary will not have a quoted market price and hence a discounted cash flow model would be required by paragraph 66 of IAS 39. The insertion of the word "each" in paragraph 38 of IAS 27 implies that accounting for such investments at cost is in accordance with IAS 39, hence paragraph 66 of IAS 39 would apply to impairments of such investments. We do not understand, and there is nothing in the Basis for Conclusions that discusses, what are the advantages and disadvantages of the different impairment models and why one model would be more or less appropriate than another.

The current version of paragraph 38(b) of IAS 27 provides for measurement in separate financial statements "in accordance with IAS 39", which encompasses assets classified as available for sale as well as at fair value through profit or loss. The current proposal appears to eliminate the option to classify such investments as available for sale. Additionally, as noted above, the insertion of the word "each" in paragraph 38 of IAS 27 implies that IAS 39 applies to investments accounted for at cost. For financial assets other than certain loans and receivables and investments classified as held-to-maturity, IAS 39 permits an entity to account for unquoted financial assets at cost only if their fair value cannot be reliably measured. In our view, this would represent a narrowing of the accounting for such investments in separate financial statements, which is not discussed in the Basis for Conclusions.

We also believe this change to be inconsistent with the thought process of the recently-published IFRS 9 *Financial Instruments*, which permits an entity to classify, on initial recognition, non-trading equity investments at fair value with changes in the fair value of those investments reported in other comprehensive income. Accordingly, we believe that, to be consistent, entities should have a choice to classify investments in subsidiaries, associates and joint ventures as at fair value with changes in fair value recognised through other comprehensive income (FVTOCI) as opposed to as at fair value with changes in fair value recognised through profit or loss (FVTPL) in their separate financial statements once they adopt IFRS 9.

We note also that under IFRS 9, no concept of impairment will be needed for equity investments within the scope of that standard as such investments always will be accounted for at fair value, with changes in fair value recognised either in profit or loss or in other comprehensive income with no subsequent reclassification to profit or loss. In our view, bringing the impairment of investments held at cost within the scope of financial instruments accounting is counter-intuitive when that model does away with the need for the concept of impairment for equity instruments.

If the Board proceeds with the proposed changes to IAS 27, then we believe that the following further amendments and clarifications should be made:

- We believe that this proposal would create uncertainty about the standard under which such investments that are classified as held for sale are measured. Paragraph 38 of IAS 27 states that investments held at cost should be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale. Investments accounted for under IAS 39, however, remain within the measurement scope of that standard when classified as held for sale. It is unclear to us whether an investment held at cost but impaired using the guidance in IAS 39 would be measured under IAS 39 or IFRS 5 when classified as held for sale. Were the Board to proceed with the proposed amendment, we believe that this matter should be clarified.

- Recently, IAS 36 was amended in relation to another change to IAS 27 (and IFRS 1 *First-time Adoption of International Financial Reporting Standards*) to include the new paragraph 12(h) of IAS 36, which specifies conditions when such investments need to be tested for impairment. This paragraph was to be applied from 1 January 2009. We note that paragraph 12(h) should be deleted from IAS 36 in connection with the change to IAS 27 as, in our view, that paragraph would be redundant and probably would cause confusion if not deleted. On the other hand, IAS 39 should be amended to include the requirements of paragraph 12(h) of IAS 36.

- We believe that paragraph 4 of IAS 36 should be deleted.

- We believe that paragraph 2(a) of IAS 39 should be clarified to acknowledge that investments in subsidiaries, associates and joint ventures that are held at cost are in the scope of IAS 39 for the purposes of assessing and measuring an impairment loss. The current wording of that paragraph states that such investments wholly are outside the scope of IAS 39.

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

We disagree with the proposal to amend IAS 34 *Interim Financial Reporting* to mandate particular disclosures in condensed interim financial statements and do not believe that the proposal would result in more useful information being made available to users of the financial statements.

Consistent with our comment letter on the ED *Fair Value Measurement* we support an approach that sets out principles for determining what information should be disclosed in interim financial statements in preference to a rules-based approach that mandates certain disclosures as proposed in paragraph 15B. We question whether a requirement to provide such disclosures would provide significant additional decision-useful information to the users of interim financial statements. There is also a risk that information might be “hidden” because of voluminous disclosures in a financial report that is supposed to be an update.

We appreciate that illustrative guidance assists the preparer in achieving the overall objectives set out in IAS 34 and therefore suggest that paragraph 15B be worded in a way such that it provides guidance illustrating the principles set out in paragraphs 15 and 15A rather than setting out additional requirements, as is implied by the wording of paragraph 15B proposed in the ED. Furthermore and consistent with this view, we note that some items listed as minimum disclosures, e.g., paragraphs 16(d) and (i), are in nature examples of significant events or transactions. We therefore suggest that those items instead be included in paragraph 15B.

On a related matter, we note that the last sentence of paragraph 16A introduces another general disclosure principle "events or transactions that are necessary to an understanding of the current interim period…", which is different to the principle set out in paragraph 15 ("significant to an understanding …"). In our view, this could lead to confusion in the application of the standard. We suggest that the principle be articulated once only in paragraph 15 and that paragraph 16A, which is the "exception to the principle", does not include a new principle. We therefore propose that the last sentence of paragraph 16A be deleted.

Finally, the proposed paragraph 15 requires an entity to "update the equivalent information presented in the most recent annual report". The term "equivalent information" is not defined, and in some circumstances no related information is presented in the most recent annual report when an event or transaction occurred for the first time during the current interim period. Therefore, we suggest the deletion of the term "equivalent".

The following paragraphs illustrate our suggested changes to the amended paragraphs of IAS 34 as proposed in the ED:

Significant events and transactions

15 An entity shall include in its interim report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions should update the ~~equivalent~~ information presented in the most recent annual report.

15A A user of an entity's interim financial report ~~will~~ <u>is presumed to</u> have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual report.

15B <u>Set out below is a non-exhaustive list of examples illustrating events and transactions that, when significant to an understanding of the current interim period, would lead an entity to present disclosures in its interim financial report in accordance with paragraph 15. Individual IFRSs provide guidance regarding disclosures for many of these items:</u> ~~The types of events or transactions for which disclosures would be required are set out below. The list is not exhaustive.~~

(a) (…)

(h) ~~significant~~ changes <u>in the fair value of the entity's financial assets and financial liabilities caused by changes</u> in the business or economic circumstances ~~that affect the fair value of the entity's financial assets~~

~~and financial liabilities~~, notwithstanding whether these assets or liabilities are recognised at fair value or amortised cost;

(i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;

(j) related party transactions;

(k) ~~significant~~ transfers between levels of the fair value hierarchy in the measurement of the fair value of financial instruments;

(l) changes in the classification of assets as a result of a change in the purpose or use of those assets; ~~and~~

(m) changes in contingent liabilities or contingent assets;~~.~~

(n) changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period; and

(o) changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations.

~~15C Individual IFRSs provide guidance regarding disclosure requirements for many of the items listed in paragraph 15B. When an event or transaction is significant to an understanding of the changes in an entity's financial position or performance since the last annual financial period, its interim financial report should provide an explanation of and an update to the relevant information included in the financial statements of the last annual financial period.~~

16A Notwithstanding the requirements in paragraphs 15–15A~~C~~, an entity shall include the following information, as a minimum, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report:~~.~~ ~~The information shall normally be reported on a financial year-to-date basis. However, the entity shall also disclose any events or transactions that are necessary to an understanding of the current interim period:~~

(a) (…)

~~(d) the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;~~

(…)

~~(i)~~(h) ~~the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long term investments, restructurings, and discontinued operations. In the case of business combinations, the entity shall disclose~~ the information required by IFRS 3 *Business Combinations* <u>if a business combination occurred during the current interim period.</u>

<u>16B The information required in paragraph 16A normally shall be reported on a financial year-to-date basis.</u>

IAS 40 *Investment Property* – Change from fair value model to cost model

We do not support the proposal to amend IAS 40 *Investment Property* to remove the requirement to transfer investment property (IP) carried at fair value to inventory when it will be developed for sale, to add a requirement for IP held for sale to be displayed as a separate category in the statement of financial position, and to require disclosures consistent with IFRS 5. Accordingly, we believe that this amendment should not be progressed either in the context of the annual improvements process or in a separate project.

We consider that prohibiting an entity from transferring a property from IP to inventory when it has in the normal course of business transferred a property from its investment portfolio to its (separate) trading portfolio, and has commenced redevelopment, will give a less relevant description of the entity's activities. This can be illustrated in the following two scenarios:

- In our experience, some large property groups have two property portfolios: an investment portfolio accounted for under IAS 40 and a trading portfolio accounted for under IAS 2 *Inventories*. Prohibiting an entity from transferring a property from IP to inventory when it has in the normal course of business transferred a property from its investment portfolio to its trading portfolio, and has commenced redevelopment, will mean that the measurement basis for trading properties will depend on the purpose for which they were originally purchased, rather than the purpose for which they are being held at the reporting date.

- In addition we note that the ED proposes to prohibit for IP the treatment that IAS 16.68A *requires* for items of PPE held for rental and that was introduced by an earlier Annual Improvement: transfer to inventory when the items become held for sale. We are unclear why the Board proposes to diverge further the requirements of the two IASs in this area, de-emphasising the role of the entity's business model in the case of IAS 40 having recently emphasised it in the case of IAS 16; this divergence is not acknowledged in, let alone supported by, the Basis for Conclusions to the ED.

- An entity that acquires land for an undetermined future use will classify that land as investment property under paragraph 8(b) of IAS 40. If the entity decides subsequently to construct a building on the land and sell the land and the building in the ordinary course of business, then the proposed amendment would prevent the land from being transferred to inventory. Conversely, if that entity had decided immediately on acquisition that it would redevelop the land in the ordinary course of business, then both the land and the building potentially would have been classified under IAS 2. We believe that this inconsistency would be an undesirable consequence of the proposed amendment.

We believe that the ED mischaracterises the proposal as being about "changes from the fair value model to the cost model"; the proposal would change the measurement basis and presentation of IP being redeveloped with a view to sale irrespective of the measurement model the entity applies to IP. For example, if under current IAS 40 an entity applies the cost model for IP and decides to redevelop the IP before a subsequent sale in the ordinary course of the business, then it would transfer the IP to inventory, change the measurement basis to the lower of cost and net realisable value, no longer would be required to identify and account for separate components, and would present any income and expenses from a subsequent sale as revenue and cost of sales rather than income from disposal of IP. Under the proposed amendment to IAS 40, a transfer to inventory no longer would be permitted, resulting in various measurement and presentation consequences.

Whilst we do not support the proposed amendment, we note that if the Board were to proceed, then additional consequential amendments may be required to IAS 40, including the following.

- Paragraph 9(a) of IAS 40 states that property intended for sale in the ordinary course of the business or in the process of construction or development for such sale is not IP. This statement would need to be reconsidered in light of the proposed amendment to IAS 40, since such property would be within the scope of the amended standard.

- Paragraph 55 of IAS 40 states that an entity shall continue to measure an IP at fair value "until … the entity begins to develop the property for subsequent sale in the ordinary course of business". This requirement would conflict with the proposed amendment to IAS 40, since a transfer to inventory no longer would be permitted in such circumstances and so fair value measurement would continue to be required.

- In addition, paragraphs 60, 76(f) and 79(d)(vii) of IAS 40 all include references to transfers from IP to inventory which would need to be reconsidered, since such transfers no longer would be permitted.

Appendix 2

This appendix contains our detailed responses to the proposals that broadly we support but about which we have comments or suggestions.

Based on our consideration of the likely costs of retrospective application of the proposals and benefits of comparability, unless otherwise stated in our detailed responses we support the Board's proposed effective date and transition requirements for each of the proposed amendments that we support.

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

Generally, we support the intention behind the proposal to amend IFRS 1 to extend the scope of the exemption in paragraph D8 of IFRS 1 to permit the use of an event-driven revaluation as "deemed cost" when the revaluation occurred after the date of transition to IFRSs but during the reporting periods covered by the first IFRS financial statements. Allowing first-time adopters to use valuations obtained after the date of transition is a practical expedient in determining deemed cost and provides a cost-effective solution. However, we do not support the proposal as it is drafted currently. Under the proposal the entity would be required to recognise the event-driven revaluation at the date that the event occurs and therefore still would have to determine the IFRS cost or a deemed cost under paragraphs D5 – D7 at the date of transition, so effectively there is no transitional relief for the entity.

Accordingly, we suggest that the Board reconsider suggestions that entities should be able to "roll back" the event-driven value(s) from the date of measurement to the date of transition. In this way, entities would have the benefit of using a measure of fair value that was determined after the transition date but, consistent with the general principles in IFRS 1, account for assets and liabilities so measured consistently between the transition date and subsequently. We believe that this is a practical and cost-efficient solution that is consistent with the objectives of IFRS 1.

In addition we note that without such "roll back" IFRS 1 would introduce new accounting requirements for transactions that occur after the date of transition to IFRSs. The existing exemptions included in IFRS 1 enable a first-time adopter of IFRSs to establish a transition date statement of financial position that is deemed to be in compliance with IFRSs; other IFRSs then are applied to such an entity's financial statements from that point in time. The proposed amendment represents an exemption from IFRSs for first-time adopters that would apply subsequent to the transition date, reducing comparability between accounting periods and between entities.

We also suggest that the Board reconsider the transitional requirements for the proposed amendment as we do not believe that unlimited retrospective application is appropriate. Paragraph BC4 explains that the reasons for granting the exemptions in paragraph D8 apply equally to revaluations that occur subsequent to an entity's date of transition to IFRSs. Paragraph BC46 of IFRS 1 explains that the reason for allowing the use of such revaluations as deemed cost for IFRSs is that to do otherwise might require a "time consuming and expensive" determination of a cost base that complies with IFRSs. An entity that has prepared its first IFRS financial statements already has made such a determination; accordingly, for such entities, we believe that such considerations are not relevant. Therefore we question why it would be appropriate to permit an existing IFRS user to adjust its financial statements retrospectively for such a revaluation and recommend that the amendment be restricted to an entity's first IFRS financial statements.

Finally, we note that paragraph D8 does not state how an event-driven valuation should be recognised if the recognition and measurement date is after the date of transition. If the Board continues with the proposal as it currently stands, then we suggest that the Board clarify how the event-driven valuation should be recognised, i.e., in profit or loss, in other comprehensive income or directly in equity.

IFRS 3 *Business Combinations* – Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

Generally, we support the proposed amendment in respect of business combinations that occurred prior to the adoption of IFRS 3 (2008), which states that entities should continue to account for outstanding contingent consideration using IFRS 3 (2004). However, we note that the effective date of this amendment lags the effective date of the affected standards by a period of one year. In order to minimise the risks of such instances recurring, we encourage the Board to strengthen its procedures for reviewing IFRSs before and after they are issued. We also recommend that the Board endeavour to communicate the likely effect of this amendment to constituents in advance of publishing the *Improvements to IFRSs*. We believe that this would encourage entities to anticipate, to the greatest degree possible, the impact of these amendments as they formulate their accounting policies for adoption of IFRS 3 (2008) and related amendments to other standards.

Additionally, in terms of the first-time adoption of IFRSs, IFRS 1 does not address specifically the treatment in the transition date statement of financial position of contingent consideration. Accordingly, as there is no specific scope exemption, any such contingent consideration could be viewed as within the scope of IAS 39. IFRS 3 (2008) does not address specifically the treatment of any changes in measurement of the liability-classified contingent consideration after the date of transition. We recommend that the Board address the treatment of any changes after the date of transition in the measurement of liability-classified contingent consideration arising from grandfathered business combinations that occurred before the date of transition to IFRSs. In our experience, many previous GAAPs use a treatment similar to that of IFRS 3 (2004); accordingly, in our view such contingent consideration should continue to be accounted for under IFRS 3 (2004).

IFRS 3 *Business Combinations* – Measurement of non-controlling interests

Generally, we support the proposals in the exposure draft regarding the amendment of paragraph 19 of IFRS 3 because without this amendment some non-controlling interests (NCI), for example share options or the equity components of convertible debt instruments of the acquiree, might be argued as requiring a proportionate share of net assets of nil because they do not grant present ownership rights or residual claims. As a consequence, some third party economic interests in the acquiree would not be reflected in the acquisition accounting.

This proposal addresses the issue so far as it relates to the creation of such a NCI as a part of business combination; however, it does not address the ongoing measurement of such NCI outside business combinations, which is within the scope of IAS 27. Some might expect components of equity not to be re-measured; on the other hand, proportional NCI are remeasured. We believe that such subsequent measurement should be addressed. Accordingly, we recommend that this AIP addresses ongoing measurement of NCI.

We also have some additional drafting points that we believe address important matters.

Firstly, we note that the proposed amendment to paragraph 19 of IFRS 3 states that any NCI in the acquiree shall be measured at either a "fair value or *other* measurement basis as required by IFRSs" (emphasis added). Reference to "other" appears overly broad. We understand this to be referring to share-based payment arrangements, which would be measured in accordance with IFRS 2 *Share-based Payment*. Consequently, we believe that the amendment should state this clearly. Alternatively, if that is not the Board's intent, then we recommend that the amendment define more clearly what measurement attribute is intended and the circumstances under which something other than fair value would be used. We also note that IFRIC D25 *Extinguishing Financial Liabilities with Equity Instruments* states that IFRSs do not contain a general measurement principle for equity, which creates further confusion as to what "other" measurement basis would be appropriate for these non-controlling equity interests.

Secondly, we believe that the meaning of the paragraph 19 amendment is unclear. We believe that the Board should clarify whether (i) the first "or" gives a free choice; (ii) the "except for" is an exception to the apparent choice of "fair value or other", or just to the "other"; and (iii) in the last sentence, which components are meant by "those"? We believe that the intended meaning is as follows and suggest that paragraph 19 be replaced with the following two paragraphs:

> 19 The acquirer shall, subject to the exception set out at paragraph 19A, measure any non-controlling interests in the acquiree at:
>
> a) fair value; unless
>
> b) another measurement basis is required by IFRS [this measurement basis should be specified as suggested above].

19A An exception to the above applies to components of non-controlling interests that are present ownership instruments and that entitle their holders to a *pro rata* share of the entity's net assets in the event of liquidation. For such non-controlling interests, the entity must choose, for each business combination, to measure such non-controlling interests at either:

a) fair value; or

b) the present ownership instruments' proportionate share in the recognised amounts of the identifiable assets and liabilities.

IFRS 3 *Business Combinations* – Unreplaced and voluntarily replaced share-based payment awards

Generally, we support the Board's proposed guidance to IFRS 3 on this topic. We agree that acquiree share-based payment transactions, for which the required service has been provided, are part of the NCI in the acquiree and are measured at their IFRS 2 amount. However, we suggest some clarifications.

As a consequence of this amendment to paragraph B56, there would be a contrast between the accounting for voluntarily-granted replacement awards replacing those that would have expired on occurrence of a business combination and replacement awards for those that would not have so expired. We are unclear why such a distinction is made between a voluntarily replaced share-based payment to be dealt with under B57-B62, part of which would be recognised in the acquisition accounting, and an award that would have expired on the occurrence of a change in control thereby making all of the replacement award post-combination compensation. This is particularly relevant given that, in our experience, many acquiree awards expire when such a transaction closes. Accordingly, we recommend that the Board clarifies (i) whether there is a different model for different "voluntary" replacement awards; (ii) on what basis such a distinction is being made; and (iii) the justification for a model under which the entire share-based payment award is recognised in profit or loss for certain replacement awards.

We suggest alignment of the terminology in paragraph B62A of IFRS 3 with that used in the ED *Fair Value Measurement* in respect of IFRS 2. The ED *Fair Value Measurement* (the Fair Value ED) proposes replacing all instances of the term *fair value*, for instance when the value referred to is not an exit price measured as set out in the Fair Value ED, with the term *market-based value*, which differs from the term *market-based measure* used in B62A.

We agree that the market-based value of unvested share-based payment transactions should be allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the total vesting period of the share-based payment transaction. However, we suggest alignment of the terminology in the application guidance in paragraph B62B of IFRS 3 with that of paragraph B58. According to paragraph B58 of IFRS 3, the *total vesting period* comprises the years of vesting already completed and any post combination vesting period. Further, paragraph B58 requires use of the greater of the total vesting period and the original vesting period of the acquiree award. However, in paragraph B62B of IFRS 3 the *total vesting period* equals the original vesting period. If an award has not been replaced or otherwise remains unchanged, the amendment makes sense but it is not clear that it does so if the award has been modified in connection with the business combination. We therefore recommend that the wording be redrafted.

According to Appendix A to IFRS 2, a *share-based payment transaction* includes both cash- and equity-settled awards. We note that the market-based measure of unvested share-based payment transactions is allocated to the NCI. In our view, this allocation to NCI would be appropriate only for equity-settled arrangements and not for cash-settled arrangements, since the latter results in the recognition of a liability rather than equity. On a strict reading of paragraph B62B, all share-based payment transactions should be recognised in NCI, which we believe is not intended to be the case for a cash-settled share-based payment. We recommend that the IASB clarify that the shared-based payment transactions guidance in paragraphs B62A and B62B only is relevant for equity-settled arrangements.

We note that the proposed amendment to paragraph B56 results in a disconnect between the first and second parts of that paragraph. The first part of this paragraph now refers to an acquirer that is obliged to replace awards and includes conditions to determine whether the acquirer is so obliged. The second part of the revised paragraph states that, if the acquirer is not obliged to replace awards, the same treatment applies in any case. We believe that the discussion of whether the acquirer is obliged no longer is needed and suggest that this paragraph be re-drafted to state the treatment regardless of whether there is an obligation or not.

We further recommend that the Board provide explicit transitional arrangements for the proposed amendment. Paragraph 64A currently does not provide such guidance and hence we believe that, in accordance with the guidance in IAS 8, entities could be viewed as being required to apply the amendment retrospectively. In our view such application could be interpreted as affecting business combinations prior to the effective date of IFRS 3 (2008), which we believe would be onerous. Accordingly, we recommend that the proposed amendment require retrospective application limited to business combinations accounted for under IFRS 3 (2008).

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

Overall we support the proposal to amend IFRS 5 to state that an entity would classify as held for sale its interest in an associate or jointly controlled entity when the carrying amount would be recovered principally through a sale transaction resulting in loss of significant influence or joint control. This approach would be similar to the treatment of an asset sale that meets the criteria of IFRS 5 involving the loss of control of a subsidiary. We believe, however, that paragraph BC2, as drafted in the ED, would be clearer if it stated that the interest in an associate or jointly controlled entity would be "classified as held for sale if the entity is committed to a sale plan involving loss of significant influence or joint control and all the criteria set out in paragraphs 6-8 of IFRS 5 are met", consistent with paragraph 8A of the ED.

Additionally, we believe that the transitional requirements of the proposed amendment should be articulated more clearly. Paragraph 44C of IFRS 5, as drafted, requires entities to apply the proposed amendment prospectively from the date at which it first applied IFRS 5, subject to the transitional requirements in paragraph 45 of IAS 27 (2008). Paragraph 45(c) of IAS 27 (2008) provides an exemption from the retrospective application requirement of that standard in respect of the amendments relating to loss of control of a subsidiary. Accordingly, we believe that the amendment would be applied retrospectively to the date at which an entity adopted IAS 27 (2008). While we believe that` this is the intention of paragraph 44C as drafted, we recommend that paragraph 44C be redrafted to state this more clearly.

IFRS 7 *Financial Instruments: Disclosures* – Disclosures about the nature and extent of risks arising from financial instruments

Generally, we support the proposed amendment to IFRS 7 *Financial Instruments: Disclosures* to enhance, provide guidance about, or remove certain disclosure requirements. However, we suggest several changes to the amendments.

The proposed new paragraph 33A requires that disclosures provided in accordance with paragraph 33 (qualitative disclosures) "support and enhance" the disclosures provided by paragraphs 34 and 35 (quantitative disclosures). The proposed paragraph is, in our view, inconsistent with the overall objective of IFRS 7. That objective, as set out in paragraph 1(b), is to provide the users with information to enable them to evaluate the nature and extent of risks arising from financial instruments and how the entity manages those risks. This overall objective for the standard is reproduced in paragraph 33, which indicates the primacy of this paragraph; however, the proposed paragraph 33A seems to suggest that paragraph 33 is subordinate to the quantitative disclosures set out in paragraph 34. We agree that there should be a clear link between quantitative and qualitative disclosures but suggest that wording is amended so that it requires the quantitative disclosures to support the qualitative ones. Additional qualitative disclosures also may be required to clarify or explain any specific risks disclosed as part of the quantitative disclosures.

The proposed amendment to paragraph 36(b) requires disclosure of the "financial effect of collateral held as security or other credit enhancements". It is not clear what is meant by the term "financial effect". The limited guidance provided in the amendment to paragraph 36(b) states that such disclosure may be met by giving a "description of the extent to which collateral and other credit enhancements mitigate credit risk". This may be interpreted as requiring a quantitative analysis; however, we note that the Board has considered the usefulness of the disclosure of fair value of collateral in paragraph 37(d) and proposes to remove such a requirement as part of this exposure draft, with which we agree. If it is the intention that disclosure of "financial effect" should be in the form of a qualitative analysis, then we recommend that the Board reconsiders the usefulness of a requirement in the context of the existing credit risk disclosure requirements that already provide information on the credit quality of financial assets. These include the remaining part of paragraph 36(b) requiring description of collateral held and other credit enhancements and paragraph 36(c) requiring information about the credit quality of financial assets that are neither past due nor impaired.

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

We agree with the intention of the proposed amendment, in that an entity should be able to present the components of changes in equity in the statement of changes in equity or in the notes. However, we believe that the drafting of the amendment needs to be revised as it appears to allow the entire content of the statement of changes in equity to be presented in the notes. In addition, the current drafting appears to allow all of the items in paragraphs 106(b) and 106(d) of IAS 1 *Presentation of Financial Statements* to be included in one line item in the statement of changes in equity, with a corresponding reconciliation in the notes. We believe that the Board did not intend for these approaches to be taken by entities when drafting a statement of changes in equity. As a result, we recommend that the Board specify what it believes should be included in a statement of changes in equity and which of those items specifically could be included in the notes. In addition, we recommend that in developing such guidance the Board considers the Illustrative Guidance included in IAS 1, as we believe that the illustrative example of a statement of changes in equity provided in IAS 1 is not consistent with the proposals in the ED.

We also recommend inserting the words “changes in” before “equity” in the first line of paragraph 107 for further consistency with the rest of IAS 1.

IAS 27 *Consolidated Financial Statements* – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31

Whilst we agree that amendments made to other standards by IAS 27 (as amendment in 2008) should apply prospectively from 1 July 2009. However, similar to our comment above on the proposed amendment to the transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (2008), the effective date of this amendment lags the effective date of the affected standards by a period of one year. Accordingly, we encourage the Board to strengthen its procedures for reviewing IFRSs and recommend that the Board endeavour to communicate the likely effect of this amendment to constituents in advance of publishing the *Improvements to IFRSs*. We believe that this would encourage entities to anticipate, to the greatest degree possible, the impact of these amendments as they formulate their accounting policies for adoption of IFRS 3 (2008) and related amendments to other standards.

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

Generally, we support the Board's proposal to amend IFRIC 13 *Customer Loyalty Programmes* to state that expected forfeitures are taken into account when the fair value of award credits is estimated based on the value of the awards for which they could redeemed.

However, we recommend retaining the term "fair" value in paragraph AG2(a) of IFRIC 13 to describe the value of awards on which an estimate of the fair value of award credits is based. Without the qualifier "fair", we believe that it is not clear on what value of awards such an estimate is based. We believe that paragraph AG2 and paragraph IE1 of the illustrative examples accompanying IFRIC 13 explain adequately the relationship between the value of awards and the value of award credits without deletion of that term from paragraph AG2(a).

Additionally, we believe that the additional wording in IE1 that states "Management estimates that each loyalty point can be redeemed for 1.25 currency units…" implies an award that can be redeemed for cash. We suggest that this sentence be modified to "Management estimates the fair value of goods for which ~~that~~ each loyalty point can be redeemed ~~for~~ to be 1.25 currency units."