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24 November 2009

Dear Sir/Madam

RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS IRELAND

EXPOSURE DRAFT: IMPROVEMENTS TO IFRSs (AUGUST 2009)

The Accounting Committee (AC) of Chartered Accountants Ireland welcomes the opportunity to comment on the proposals contained in the above document. The appendix to this letter provides answers to the detailed questions asked in the document.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully,

Mark Kenny

Secretary, Accounting Committee

Appendix

AMENDMENT ONE

Proposed amendment to IFRS 1 – Accounting policy changes in the year of adoption

Question 1

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

AC agrees with the proposed amendment. AC has the following additional comments:

- The proposed paragraph 32(c) states "If during the period covered by its first IFRS financial statements, an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in accordance with paragraph 23 and update the reconciliations required by this paragraph."

  AC suggests that the IASB considers whether this should refer to the reconciliations required by paragraph 24, as opposed to this paragraph (being paragraph 32), as outlined in the introduction to the amendment.

- Para 27A states the following "If during the period covered by its first IFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in accordance with paragraph 23 and update the reconciliations required by paragraph 24(a) and 24(b)."

  AC suggests that the IASB considers whether it is clear from this wording that paragraph 27A applies where a first-time adopter changes its accounting policies or its use of exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT TWO

Proposed amendment to IFRS 1 – Revaluation basis as deemed cost

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT THREE

Proposed amendment to IFRS 3 (as revised in 2008) – Measurement of non-controlling interests

Question 1

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

Overall, AC agrees with the proposed amendment, however AC would welcome illustrative guidance on how this principle would apply to instruments such as share options, convertible instruments and share warrants.

One member of AC expressed concern that the proposed amendment appears to widen the definition of 'non-controlling interests' (NCI) without clearly setting out the rationale. The member noted that the introduction of the term NCI compared to 'minority interests' as part of IFRS 3 (2008) was widely understood to be a change of terminology only and considers that the proposed solution appears simplistic and does not respond to the fundamental question of what NCI represents and what criteria are used to measure it.

By way of explanation, the member considered the example of the holder of an option which 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. By widening the definition of NCI to include such interests, and requiring their measurement at the date of the business combination, the member considers it unclear what the impact is when subsequently measuring such instruments. That is, the value of goodwill will potentially be higher as a consequence of measuring additional NCI (e.g. options).

On this basis of the above considerations, the member argued that the proposal is significant and should be reconsidered as part of a separate project on NCI and exposed for comment separately from the annual improvements process.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT FOUR

Proposed amendment to IFRS 3 (as revised in 2008) – Un-replaced and voluntarily replaced share-based payment awards

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT FIVE

Proposed amendment to IFRS 3 (as revised in 2008) – Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT SIX

Proposed amendment to IFRS 5 – Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT EIGHT

Proposed amendment to IAS 1 – Clarification of statement of changes in equity

Question 1

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

AC agrees with the proposed amendment.

AC does, however, note that paragraph 106(d) refers to 'each component of equity' whereas BC1 refers to 'the reconciliation requirements for classes of accumulated other comprehensive income …..'. AC requests that the Board clarifies whether this proposal relates to classes of accumulated other comprehensive income or each component of equity.

AC suggests that the IASB considers whether it would be more appropriate to clarify the amendment to state 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. For example, this could 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.

<u>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. </u>"

It might also be helpful if the illustrative examples in the Guidance accompanying IAS 1 are amended to reflect examples of the presentation of the reconciliation of classes of accumulated other comprehensive income both in the statement of changes in equity and in the notes to the financial statements.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT NINE

Proposed amendment to IAS 8 – Change in terminology to the qualitative characteristics

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT TEN

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

Question 1

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

Overall, AC is not supportive of the proposed amendment for the reasons set out below.

Firstly, the Board is proposing that an investor in a subsidiary, jointly controlled entity or associate applies the provisions of IAS 39 to tests its investments in subsidiaries, jointly controlled entities and associates for impairment. However, the Board is currently undertaking a significant review of IAS 39 with a view to replacing IAS 39 with a new standard on accounting for financial instruments. AC would, therefore, suggest that the Board should defer any amendment to IAS 27 in relation to testing investments in subsidiaries, jointly controlled entities and associates in an investor's separate financial statements for impairment until the final standard replacing IAS 39 has been issued and any revised method for testing financial assets for impairment is known.

Secondly, AC notes that the proposed amendment to paragraph 38 of IAS 27 states the following;

"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."

However, AC notes that 'cost' is not explicitly defined or explained in IAS 39.

Thirdly, AC notes that the introduction and the Basis for Conclusions of the amendment state that this amendment relates to testing investments in subsidiaries, jointly controlled entities and associates for impairment for the purposes of an investor's separate financial statements. However, AC believes that the wording proposed in paragraph 38 would require compliance with all recognition, measurement and de-recognition rules within IAS 39 – e.g. this could lead to an investor de-recognising an investment at a different date in its consolidated financial statements to its separate financial statements.

Fourthly, investments in subsidiaries, jointly controlled entities and associates are different in nature to smaller equity investments, or short-term investments that are 'speculative' or 'trading' in nature. AC believes that under an IAS 36 impairment model, a parent's investment in a subsidiary based on 'value-in-use' will in general exceed the investment's fair value. AC believes that value-in-use will reflect factors such as 'control premium' and 'group synergies' that would not be duplicated in a 'fair value' model. Therefore, AC believes that testing investments in subsidiaries, jointly controlled entities and associates using an IAS 39 model could lead to recording impairments that would not be recognised under an IAS 36 impairment model. AC is also not clear how intercompany balances between the parent and the investee would be factored into an impairment calculation under IAS 39.

Question 2

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

As noted at Question 1 above, AC is not supportive of this amendment.

AMENDMENT ELEVEN

Proposed amendment to IAS 27 – Transition requirements for amendments arising as a result of IAS 27 (as amended in 2008)

Question 1

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

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT TWELVE

Proposed amendment to IAS 28 – Partial use of fair value for measurement of associates

Question 1

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

AC is not opposed to the Board's proposal.

AC acknowledges that the Board agrees that the second view, as discussed in the Basis of Conclusions to the amendment, should be applied in determining the accounting for different interests in an associate (scope criteria determines the accounting for different portions of an investment), however AC would welcome some additional guidance as to why the Board formed this view.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

AMENDMENT THIRTEEN

Proposed amendment to IAS 34 – Significant events and transactions

Question 1

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

AC agrees with the proposed amendment.

One member of AC questioned whether the proposed structure would create two lists of requirements, whose relationship is unclear. The member suggested that consideration should be given to retaining 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.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

Question 3

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft *Fair Value Measurement* in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What approach would you propose instead and why?

AC agrees that the proposed amendment is likely to lead to more useful information being made available to investors and other users of interim reports.

Question 4

The Board proposes changes to IAS 34 *Interim Financial Reporting*. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

AC agrees that amending IAS 34 to require particular disclosures to be made in interim financial statements is an effective way of ensuring that users of interim financial statements are provided with useful information.

AMENDMENT FOURTEEN

Proposed amendment to IAS 40 – Change from fair value model to cost model

Question 1

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

AC agrees with the proposed amendment.

AC notes that paragraph 58A(b) requires provision of the disclosures required by paragraphs 38 and 40 – 42 of IFRS 5. AC notes that paragraphs 38 and 40 of IFRS 5 contain presentation requirements as opposed to disclosures requirements.

AC suggests that the IASB considers whether it is clear from the proposed wording for paragraph 58A(b) that investment property that is held for sale is to be displayed as a separate category in the statement of financial position and whether paragraph 54 of IAS 1 also needs to be updated to reflect this proposal.

One member of AC noted that there is potentially unclear guidance within IAS 40 regarding 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 a non-current asset held for sale in accordance with IFRS 5. The member believes that it would be useful to clarify that IFRS 5 applies to investment properties that meet the criteria to be classified as held for sale and that the proposed words in paragraph 58A (a) achieves this.

However, the member noted that, with the proposed removal of paragraph 57(b) and the related words in paragraph 58, the result is 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 (either after development or during pre-development) 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, the member believes it would be appropriate to consider whether the investment properties in question should be transferred to inventory, due to the change in an entity's business intention. With the proposed deletion, the circumstances under which such a transfer might be appropriate would not be as apparent. The member does not believe that this was the Board's intention when proposing the amendment.

The member also disagrees 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. The member considers this to be inconsistent with the principles of IFRS 5 and likely to cause confusion amongst 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.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

Question 3

The Board proposes to amend IAS 40 *Investment Property* 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 for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Do you agree that the proposed amendment should be included within the *Improvements to IFRSs* or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

AC is supportive of the amendment. However, as noted in the response to Question 1, AC suggests that the proposals impact on IAS 1 as well as IAS 40. AC also suggests that the IASB consider if the scoping paragraph of IAS 2 is also impacted by these proposals.

AMENDMENT FIFTEEN

Proposed amendment to IFRIC 13 – Determination of fair value

Question 1

Do you agree with the Board's proposal to amend the IFRIC 13 as described in the exposure draft? If not, why and what alternative do you propose?

AC agrees with the proposed amendment.

Question 2

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

AC agrees with the proposed transition provisions and effective date.

CONCLUDING COMMENT

AC suggests that the IASB should monitor the costs and benefits of making improvements on an annual basis as, while they do represent improvements, they are inevitably disruptive for preparers.