FAR SRS

The institute for the accountancy profession in Sweden

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

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Exposure Draft 2009/11: Improvements to IFRSs

FAR SRS, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the *Exposure Draft 2009/11: Improvements to IFRSs*.

FAR SRS welcomes the opportunity to comment on the Exposure Draft.

FAR SRS agrees with almost all of the Board's proposed amendments in the Exposure Draft. However in FAR SRS' opinion the proposed amendments regarding IAS 1 should be further developed. Furthermore, FAR SRS does not agree with the notion to prescribe IAS 39 rather than IAS 36 as the impairment standard for subsidiaries, associates and joint ventures in the separate financial statements. FAR SRS is in favour of IAS 36. Finally, FAR SRS does not agree with the proposed amendments in IAS 40 to prohibit reclassifications from investment properties to inventories. It is FAR SRS' view that such reclassifications, when certain circumstances are met, are appropriate under principle based IFRS.

FAR SRS' detailed comments are set out in the Appendix 1 to this letter.

FAR SRS

Göran Arnell

Göran Arnell
Chairman FAR SRS Accounting Policy group

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Appendix

Question 1

IFRS 1

FAR SRS agrees with the proposed amendments.

IFRS 3

FAR SRS agrees with the proposed amendments except for the transitional rules. FAR SRS is concerned about the inconsistent transition rules due to the fact that IFRS 3 (revised 2008) has an effective date for annual periods beginning on or after 1 July 2009, but the amendments applicable from the same date will become effective for annual periods beginning on or after 1 July 2010, i.e. one year later. The effective date of this amendment should be on or after 1 July 2009.

IFRS 5

FAR SRS agrees with the proposed amendments.

IFRS 7

FAR SRS does not agree with the amendments of IFRS 7 p 36 a). Instead, disclosures should be disclosed for the maximum exposure from both recognised and unrecognised items. According to the proposed amendment, there is a risk that credit risk measures will be disclosed that do not provide a true and fair view of the maximum credit risk.

IAS 1

FAR SRS agrees with the proposed amendments regarding IAS 1.106 (d) (i) and (d) (ii) to the extent that they make it possible to present each item in OCI in the notes. However, FAR SRS would prefer that the proposed amendments only give the possibility to present each item in OCI in the notes and not in the Statement of changes in equity. In FAR SRS' opinion the proposed amendments in this respect can be seen as a first step.

FAR SRS finds that inconsistencies still exist between IAS 1.106 (d) (i) and (d) (ii) – depending on how "each item of other comprehensive income" is interpreted regarding both level of detail and form of presentation – on the one hand, compared to IAS 1.IN6, IN 13 (a) and IG6 on the other hand. The underlying idea with recognising items in OCI in the statement of comprehensive income instead of directly in equity appears to be to disclose all items of income and expense in the statement of comprehensive income. Therefore, it is logical to not disclose any line items of income and expense in the statement of changes in equity, as illustrated in IG6 and expressed in IN6 and IN13 (a).

To be consistent in this approach, regarding where line items of income and expense are to be recognised, IAS 1.106 should not include a possibility to specify OCI-items in the statement of changes in equity other than as an allocation of total comprehensive income on the line for total comprehensive income to reserves. Rather, the statement in IN6 and IN13 (a) should be included within the standard.

Another concern is that, in FAR SRS opinion, items in IAS 1.106 (a), (b) and (d) (iii) should not be allowed to be disclosed in the notes. These items should be required in the statement of changes in equity. If these items are not required in the statement of changes in equity FAR SRS believes that this statement will lose the major part of its purpose/ usefulness. In this undesired situation FAR SRS believes that the statement of changes in Equity does not have to be mandatory.

IAS 8

FAR SRS agrees with the amendments of the terminology which are justified by a harmonization with the coming revised "conceptual framework".

IAS 27

FAR SRS is not convinced by the arguments for prescribing IAS 39 rather than IAS 36 as the impairment standard for subsidiaries, associates and joint ventures in the separate financial statements. FAR SRS is rather in favour of IAS 36.

FAR SRS acknowledges that IAS 27.BC66 expresses that, for separate financial statements, the focus is on the performance of subsidiaries, associates and joint ventures as investments. This assessment was made in relation to excluding the equity method as an alternative for measurement of the mentioned assets in separate financial statements. It does not, however, necessarily follow from that view that value in use is a less relevant impairment testing measurement base than fair value for all kinds of investments.

Elements of IAS 39 and IAS 36 indicate that the IASB has on several occasions had the view that subsidiaries, associates and joint ventures are to be impairment tested for separate financial statements by application of IAS 36. Examples of that view are found in IAS 39.2 (a), IAS 36.4, and IAS 36.12 (h). The fact that investments in *subsidiaries* are mentioned in IAS 36.4 (a) indicates that this scope paragraph is not only meant to cover consolidated financial statements, but also separate financial statements. Furthermore, had the view proposed in this draft amendment prevailed at the time of the recent addition of paragraph 12 (h) to IAS 36 that addition should have been made to IAS 39 instead.

FAR SRS finds that an argument in favour of using IAS 36 is that investments in subsidiaries, associates and joint ventures are often *not* held with the purpose to earn a return from selling the shares in the future. The purpose is rather to earn the return from a long-term continuing use of the underlying business. When investments in subsidiaries, associates and joint ventures are held with such a purpose, FAR SRS finds that including value in use in impairment testing would provide more relevant information in the financial statements than the use of only fair value in the testing would.

Another argument relates to the fact that the (net) assets in subsidiaries, associates and joint ventures that are recognised in the consolidated financial statements are in the separate statements represented by the investments recognised as financial assets. Although these (net) assets are recognised in different ways in the consolidated and the parents separate financial statements, they represent the same businesses. FAR SRS

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therefore finds it logical to reach conclusions on impairment on the same basis in both cases. If, for example, the assets of a subsidiary constitute a CGU in the group, it appears difficult from a theoretical perspective to motivate that the investment in the subsidiary should be impaired while the CGU is not (or vice versa). Such a scenario would probably also be difficult for users to understand and could cause confusion and increase scepticism over the usefulness of IFRS.

For these reasons, FAR SRS finds that the impairment testing requirements of IAS 36 are more relevant than those of IAS 39 for investments in subsidiaries, associates and joint ventures that are recognised at cost. The impression from the above-mentioned paragraphs of IAS 36 and 39 is that the IASB has also had this view on many occasions.

In FAR SRS' opinion it would be appropriate to make an amendment in IAS 28.31 and IAS 28.32. FAR SRS believes that it would be more consistent with the above-mentioned paragraphs (IAS 36.4, IAS 36.12 (h) and IAS 39.2 (a)) that the investor applies the requirements of IAS 36, instead of IAS 39, to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate. For the same reason FAR SRS would also like to replace IAS 39 with IAS 36 in IAS 28.32.

If the position taken in the proposed amendment is not changed, FAR SRS has concerns with the actual amendments. IAS 36.4 seems confusing. It is mentioned that IAS 36 should be applied to financial assets classified as subsidiaries. Such financial assets do not exist in consolidated financial statements and for separate financial statements they are being scoped out of IAS 36. However IAS 36.4 states that there are situations when IAS 36 applies to financial assets classified as subsidiaries and therefore has to be amended. IAS 36.12 (h) should be deleted and replaced with a paragraph of the same type in IAS 39. Possibly some basis for conclusion paragraphs in IAS 36, e.g. regarding the added IAS 36.12 (h), also need attention.

IAS 28

FAR SRS agrees with the proposed amendment in IAS 28 to add paragraph 1A and 41E into the standard.

However FAR SRS would like to make some amendments in IAS 28.31 and IAS 28.32. As FAR SRS emphasizes above in the 7th paragraph under the heading IAS 27, FAR SRS believes that it would be more consistent with the paragraphs IAS 36.4, IAS 36 12 (h) and IAS 39.2 (a) that the investor applies the requirements of IAS 36, instead of IAS 39, to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate. For the same reason FAR SRS would also in IAS 28.32 prefer to replace IAS 39 with IAS 36.

IAS 34

FAR SRS agrees with the proposed amendments.

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IAS 40

FAR SRS disagrees and does not support the proposed amendment. FAR SRS believes that under a principle based standard there may very well be situations where reclassifications are justified. For example, a change in the business model may be such an example where a reclassification from investment properties to inventories is reasonable.

IFRIC 13

FAR SRS agrees with the proposed amendments.

Question 2

FAR SRS agrees with the transitional provisions and effective dates except for IFRS 3 as described above.

Question 3-5

See FAR SRS' comments to Question 1 above.

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