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Exposure Draft ED/2009/11 – Improvements to IFRSs

Dear Sir David,

Thank you for the opportunity to comment on the proposals for improvements to 11 standards published by the International Accounting Standards Board (IASB) on 28 August 2009 as part of the annual improvements project.

We have shown our appraisal of the amendments in detail on the following pages.

Change in IFRS 1

Accounting policy changes in the year of adoption

We welcome the clarification regarding information about changes in accounting methods between the IFRS interim financial statement and the first complete IRFS financial statement. The clarification clearly describes the required adaptations and information.

Fair value or revaluation as deemed cost

The extension of the deemed-cost regulations to the period between the transition to IFRS and the first IFRS financial statement is fundamentally to be welcomed from the aspect of relief. This in fact extends the deemed-cost regulation by two reporting periods.

However, based on the following aspects, we see the change as critical:

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- considerable freedom to obtain 'event-driven measurements' within the period between the transition to IFRS and the reference date for the first IFRS financial statement. The restriction to 'event-driven measurements' is not sufficiently unambiguous, as for each measurement an event can be used as a basis. It is recommended either to define the term 'event-driven' precisely (instead of using only examples to do so) or not to restrict the deemed-cost regulation only to results-based valuations.
- The description in a review remains unclear: for example, the treatment of cumulative depreciation after a revaluation after the transition to IFRS. This results in a lack of clarity in use in practice.

Change in IFRS 3

Measurement of non-controlling interests

The clarification of the valuation of the non-controlling interests during a corporate merger is to be welcomed. This improves the clarity of the standard.

Unreplaced and voluntarily replaced share-based payment awards

The clarification of the handling of share-based remuneration is to be welcomed. This improves the clarity of the standard.

Transition requirements for contingent considerations from a business combination that occurred before the effective date of the revised IFRS

The clarification that only contingent considerations in conjunction with corporate mergers, which are displayed according to IFRS 3, need to be handled in accordance with IFRS 7 and IAS 32/IAS 39 is to be welcomed. This significantly clarifies the handling of contingent considerations of earlier corporate mergers.

Change in IFRS 5

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

We do not consider the planned change of IFRS 5 with regard to the accounting for shares in associated companies and/or joint ventures of which shares are sold in such a way that a simple participation (i.e., without definitive influence or joint control) remains to be appropriate. Even if this results in the harmonisation of the regulations for the sale of shares to subsidiaries for which no complete exit is planned, a non-controlling interest remains.

This is justified as follows:
Assets and liabilities of subsidiaries are included completely in the consolidated financial statement of the parent company in accordance with the entity theory. In the classification of the subsidiary as 'held for sale', the assets and liabilities remain in the consolidated financial statement of the parent company without a change in valuation. After loss of control, the

remaining share in the former subsidiary remains as a single asset which is newly defined and valued according to the regulations for the new asset (e.g. IAS 39 for simple interests, IAS 28 for shares in associated companies).

In the case of an associated company or joint venture valued according to the equity method, the decision to sell precludes a valuation according to the equity method comparable to consolidation. From this point the valuation is carried out using the lower value from the book value and the fair value less sales costs (IFRS 5.15).

If after the sale a simple interest in the formerly associated company or joint venture remains, according to the change planned in ED/2009/11, a reintegration in the assets not held for sale must be carried out. The remaining interest which was not intended for sale was therefore not reported appropriated for its economic content during the period of the planned sale.

In contrast to the procedure for subsidiaries, split accounting using the equity method is therefore recommended for associated companies and joint ventures that are not completely sold. The remaining interest is then valued according to the relevant regulations (e.g. IAS 39), and the interest to be sold according to IFRS 5. The book value should be separated in the accounting into the interest held for sale and the interest to be kept. This form of reporting results in a more relevant and more reliable description of assets.

Change in IFRS 7

Secured loan volume (IFRS 7.36(b))

We explicitly welcome the deletion of the disclosure obligations with regard to the renegotiated loan volume (IFRS 7.36(d)) and to the fair values of securities (IFRS 7.37(c)). In our opinion, in conjunction with the deletion of IFRS 7.36d IFRS 7.B5(g) should also be deleted, as a reference to IFRS 7.36d is created here which will be void after the revised standard takes effect.

We also wish to add the following comments on the disclosure-related issues with regard to the fair value valuation of financial instruments. We believe that these should be regulated exclusively in IFRS 7 as lex specialis. Thus we explicitly urge that in the final "Fair Value Measurement" standard a corresponding limitation of the scope of application be formulated, as this ED covers more content than in the adopted IFRS 7 (see ED/2009/5.58).

Furthermore, we do not consider it to be useful to require all IFRS 7 information related to the fair value valuation of financial instruments to be compulsory for the interim financial statements as well in accordance with IAS 34. Rather, we feel that securing a balanced overall picture is required, so that in our opinion the description of the level III review, which we have already criticised in the context of the revised version of IFRS 7, is far too detailed for a reasonable interim report.

Change in IAS 1

Clarification of statement of changes in equity

The addition in sub-paragraph 106 is not clear: While the basis for conclusion refers to sub-paragraph 106(d), sub-paragraph106 is described as if all information in this sub-paragraph can be reported in the notes.
The change in this sub-paragraph should be formulated more clearly.

The clarification in IAS 1 is to be welcomed. This increases the options for a clearly organised description of the changes in the individual equity components in the financial statement.

Change in IAS 27

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

We welcome the clarification that IAS 39 is to be applied for impairment tests for interests in subsidiaries, joint ventures and associated companies. This clarifies an open issue of application by the board.

The accompanying deletion of the accounting according to the regulations of IAS 39 and its replacement with a valuation at fair value which will affect income represents a major and superfluous intervention in the previous classification and valuation options in accordance with IAS 39. The option of applying the classification 'available for sale' is thus eliminated. The option of reporting changes in the fair value in 'other comprehensive income' should be retained. Having said this, we explicitly recommend changing IAS 27.38(b) so that accounting at cost, at fair value through profit and loss and at fair value in other comprehensive income is still possible.

Transition requirements for the amendments arising as a result of IAS 27 (as amended in 2008)

We welcome the clarification in the transitional regulations.

Change in IAS 28

Partial use of fair value for measurement of associates

We welcome the change in IAS 28. This also makes split accounting possible for interests in associated companies. However, it must be noted that 'split accounting' in this context is not consistent with the exclusion of 'split accounting' in accordance with the planned changes in IFRS 5. While interests in an associated company are viewed as a coherent unit in accordance with the planned changes in IFRS 5, according to the planned changes in IAS 289 the interests in associated companies do not represent a coherent unit.

We also refer to our comments on the planned changes in IFRS 5.

Change in IAS 34

Significant events and transactions

In conjunction with the planned extensions of IAS 34, we point out that the data collection is accompanied by significantly higher costs for the users. This particularly affects the duty of disclosure in IAS 34.15B(k) regarding the determination of shifts between the levels of the fair value hierarchy. A corresponding review of the cost/benefit aspects should be carried out; at the least the formulation of the text should be made more precise to state that changes in the valuation hierarchy (level shifts) are limited to financial instruments valued at fair value.

With regard to the change in sub-paragraph IAS 34.15B(h), the reporting obligation should likewise be limited explicitly to the financial instruments reported at fair value.

Change in IAS 40

Change from fair value model to cost model

We welcome the planned change in IAS 40. The change will simplify the accounting for investment property and make it clearer for users of the financial statements.

Change to IFRIC 13

Determination of fair value

We see the clarification in IFRIC 13 as positive. The possibility of incorrect interpretations of IFRIC 13.AG2 is thus avoided for the most part.

Should you have questions or require further discussions, we will be pleased to assist you at any time.

Kind regards,
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(Karl-Heinz Boos) (Lothar Jerzembek)