COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

International Accounting Standards Board
30 Cannon Street
London
To: commentletters@iasb.org

20 November 2009.

Exposure Draft: Improvements to IFRSs
Deadline: 24 November 2009

Dear Sir,

Brazilian Accounting Pronouncements Committee (CPC)[1] is pleased to offer our comments on International Accounting Standards Board (IASB) in respect to Exposure Draft: Improvements to IFRSs.

Please see our comments and responses to the Invitation to Comment questions in the Appendix.

If you have any question on our comments, please contact our Board Member, **Geraldo Toffanello** (*geraldo.toffanello@gerdau.com.br*).

Yours sincerely,

Edison Arisa Pereira

Technical Coordinator

Brazilian Accounting Pronouncements Committee (CPC)

[1] The CPC was founded by ABRASCA (Brazilian Listed Companies Association), APIMEC (National Capital Market Investment Professionals and Analysts Association), BMFBOVESPA (São Paulo Stock Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors), with the objective of the study, preparation, and issuance of Technical Pronouncements on Accounting procedures.

Appendix

General questions (applicable to all proposed amendments)

Question 1

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

Response: We agree with the Board's proposal, except 3 aspects related as follows:

1) Item b on paragraph 38 from IAS 27 Consolidated and Separate Financial Statements.

It was originally:

(b) in accordance with IAS 39.

The proposed new wording is:

(b) at fair value through profit or loss

That is, the proposal restricts the application of IAS 39 requiring that the entity, necessarily, uses the category of measured by the fair value through profit or loss.

We believe this classification is incoherent with the proposed in the near final draft of the IFRS 9 which allows (5.4.4) investments in equity financial instruments to be evaluated at fair value in return for adjustments of equity valuation (net equity). That is, the restriction imposed in the proposal does not meet the established on the proposed version (near final draft) from the IFRS 9.

2) IAS 27: Considering the purpose of this amendment (described on page 43 of the Exposure Draft) there is a concern regarding the determination of the impairment loss for financial assets designated at fair value through profit or loss, given the established in paragraph 58 of IAS 39 in force, as follows:

> An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortized cost), paragraph 66 (for financial assets carried at cost) on paragraph 67 (for available-for-sale financial assets) to determine the amount of any impairment loss.

IAS 39 demands specific procedures when there is evidence of impairment in financial assets, just for financial assets recorded at cost or at amortized cost and for financial assets available for sale. In other words, there is no specific guidance for the recognition of impairment losses in financial assets set at fair value through profit or loss. This may be confirmed by the established in the final text of paragraph 46 of IAS 39 in force which provides: [...] All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraphs 58-70 and Appendix A paragraphs AG84-AG93.

Therefore, considering the amendment in paragraph 38 and the inclusion of paragraph 38D (page 44 of the Exposure Draft) in conjunction with what is provided by IAS 39 in force, in order to make it easier to understand, it is suggested to clarify that the setting and measurement of impairment losses are only required when the entity chooses the measurement by cost.

3) IAS 40: In relation specifically to the wording used in the Exposure Draft, we highlight the following considerations:

1. According to the new wording of paragraphs 57 and 58 no investment property may be transferred to inventory (page 60). However, considering the wording of question 5 (page 6) and the introduction of the topic Proposed Amendment to IAS 40 (page 59) the understanding is that only those recorded at fair value are the ones that can not be transferred to inventory.
2. It is observed that the wording of paragraph 60 (page 61) did not change at all in relation to its original, wording in IAS 40, which provides that the property's assigned cost, for the subsequent measurements in accordance with IAS 2 (Inventories) must be the fair value at the date of the change of its use. That, in conjunction with the foregoing, contributes to generate some confusion on the proposed amendment.

Specifically in relation to the proposed amendment, its analysis was made considering the provisions of paragraph 68A of IAS 16 (Property, Plant and Equipment) reproduced below:

> However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be

recognized as revenue in accordance with IAS 18 Revenue. IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

By analogy to the provisions of IAS 16 and assuming that when an entity operates in a business where the sale of real state, buildings and land are part of their normal activities and it, additionally, has investment properties (defined as such in its initial recognition) to the extent that the management company starts the development of part of these properties for its sale, in the course of their normal activities, I understand that the transfer of investment property to inventory will generate more useful information for the users of financial statements. Thus, I think that the possibility of transference of investment property to the inventory should only be kept when the sale of real state, buildings and land is part of the entity's normal activities.

Therefore, it is suggested that the transfer to inventory, regardless of the evaluation method of the entity for their investment properties (cost or fair value) can only be made where the sale of real state, buildings or land is part of the entity's normal activities. In other cases, that is, when the sale of real state, buildings or land is not part of the normal activities of the entity, it is suggested to keep the proposed amendments, including regarding the use of IFRS 5. Consequently, regardless the evaluation method of the entity for its investment properties (cost or fair value), when the entity decides to sell an investment property, it shall continue to be treated as investment property until its derecognition and do not treat the asset as an inventory.

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 not? And what alternative do you propose?

Response: We do not have comments on this question.

Specific questions

Question 3

The Board proposes changes to IAS 34 *Interim Financial Reporting* to emphasize its disclosure principles. It also adds to the guidance section 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 would you propose instead and why?

Response: We do not have comments on this question.

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 not? What approach would you propose instead and why?

Response: We do not have comments on this question.

Question 5

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 *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.

Response: Considering the suggestions made in the answer to the question n° 1 for the proposed amendments of IAS 40, we understand that such amendments should be included within the improvements to IFRSs and not as a separate project.