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25 November 2009

Dear Sir

Exposure Draft ED/2009/11 Improvements to IFRSs

We are pleased to comment on the above exposure draft (the ED), on behalf of BDO International.

In general, other than as set out in our response in the Appendix below, we support the proposals in the ED. With regard to effective dates, unless there are specific reasons for differences, we would prefer a common start date for all changes made by the improvement project.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please contact Andrew Buchanan at +44 (0)20 7893 3300.

Yours sincerely

BDO Global Coordination B.V.

Appendix

IFRS 1 – *First-time Adoption of International Financial Reporting Standards*

<u>Accounting policy changes in the year of adoption</u>

Paragraphs 27A and 32(c) do not appear to reflect the clarification that is given in BC3 that paragraphs 27A and 32(c) apply when an entity changes its accounting policies or its use of IFRS 1 exemptions between its first IFRS interim financial report and its first IFRS annual financial statements. Paragraphs 27A and 32(c) instead refer to the entire period covered by an entity's first IFRS financial statements and would appear to introduce an inconsistency between the amendments and the basis for conclusions. We assume that the drafting of paragraphs 27A and 32(c) is intended to ensure that all changes in accounting policies are captured and not only those that are changed after an entity has published its first interim report. However, we would have expected disclosures for the period covered by an entity's first interim report to be required by paragraph 32(b), although we note that a consequential amendment to that paragraph has not been made.

Therefore we suggest amendments are made as follows:

Paragraph 32(b): add a sentence at the end of this paragraph which reads:

'If, during the period covered by its first interim financial report in accordance with IAS 34, an entity changes its accounting policies or its use of exemptions contained in this IFRS, it shall explain the changes in accordance with paragraph 23 and update the reconciliations required by this paragraph.'

Paragraph 32(c): replace 'If during the period covered by its first IFRS financial statements, an entity…..' with:

'If, during the period between its first IFRS interim report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, an entity……'

<u>Revaluation basis as deemed cost</u>

It is not clear from the amendments to paragraph D8 what an entity is to do if the fair value measurement is after the transition date. For example:

- What is the deemed cost on the transition date?
- How is an entity to deal with depreciation between the transition date and the revaluation date where the revaluation date amount is to be deemed cost?
- What if an entity's previous measurement does not comply with IFRS?

The basis for conclusions indicates that the Board's intention is to provide relief from restatement during the period prior to the remeasurement date, which implies that the entity would be permitted to use its previous GAAP carrying amount in its transition date balance sheet, and apply depreciation to that carrying amount between its transition date and the remeasurement date. If this is the Board's intention, it would be appropriate for this to be an explicit relief in paragraph D8, rather than an implied relief. The proposed narrative which has been added to the end of paragraph D8 might be amended to read:

‘If the measurement date is after the first-time adopter’s date of transition to IFRSs, the entity may either use its previous GAAP carrying amount as deemed cost at the date of transition, or may elect a deemed cost at that date that meets the criteria in paragraphs D5-D7. The carrying amounts of the assets or liabilities affected by the subsequent event-driven fair value measurement(s) within the entity’s first IFRS reporting period are adjusted to those fair values when the event occurs, with those fair values being recognised at that point as deemed cost.’

IFRS 3 – *Business Combinations* (as revised in 2008)

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

Although we agree with the clarification of the transitional provisions related to contingent consideration, this is a significant issue for first-time adopters as well as ongoing IFRS reporters.

In order that first-time adopters are granted the same relief as those entities that already report in accordance with IFRS, and to assist in comparability, we suggest that a similar amendment is made to IFRS 1 to exclude contingent consideration arising from business combinations in annual periods commencing before 1 July 2009 from the requirements of IFRS 3 (revised 2008), and to require instead the application of IFRS 3 (as issued in 2004).

As a separate point, we note that paragraph 64A refers to the addition of paragraphs C3A, C7A and C13A. However, these paragraphs do not appear to have been included in the exposure draft.

IFRS 7 *Financial Instruments: Disclosures*

We are concerned that the proposed amendment to 34(b), which removes the reference to materiality when applying paragraphs 36 to 42, might be interpreted in some jurisdictions as requiring disclosures in relation to individual financial assets that are impaired but clearly not material to an entity’s financial position taken as a whole. Although Paragraph BC2 indicates the Board’s intention for removing the reference was to avoid the inclusion of non material disclosures under IFRS 7, we consider there is a risk that this will have the opposite effect in relation to the disclosures required by 37(b). We suggest that the Board expands paragraph BC2 to make specific reference to paragraph 31 of IAS 1, which states explicitly that a specific disclosure required by an IFRS does not need to be given if that information is not material.

We agree with the proposed amendment to paragraph 38 to focus on the reporting date rather than at any point during the period. However it is not clear how gains or losses arising on taking possession of collateral should be disclosed if possession occurs at some point during the reporting period rather than at the end of the reporting period. Is it the Board’s intention that the proposed amendments to paragraph 36(b) would address this matter? If this is the case, it would be helpful to clarify this in the proposed amendments.

IAS 1 Presentation of Financial Statements

Paragraph BC1 states that the Board’s intention was to permit an entity to provide the reconciliation requirements for classes of accumulated other comprehensive income in the statement of changes in equity or in the notes. However the inclusion of the phrase ‘or in the notes’ in the introductory sentence of paragraph 106 appears to permit all of the disclosures (ie 106(a), (b) and (d)) to be presented in the notes, which we assume is not the intention of the proposed amendment. We suggest that 'or in the notes' is deleted from the introductory sentence, and that a sentence is added at the end of paragraph 106 as follows:

'The disclosures required by paragraph 106(d) may be presented either in the statement of changes in equity or in the notes.'

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

We have no objections to the proposed amendments to IAS 8 provided the proposed amendments are made contemporaneously with the forthcoming conceptual framework.

For the proposed amendment to paragraph 10(b), we suggest that this might read 'free from material error' rather than 'free from error'. Alternatively, the basis for conclusions might make specific reference to the relevant paragraphs of the Framework to make it clear that the reference is, overall, to material errors.

IAS 27 *Consolidated and Separate Financial Statements*

We agree with the proposed amendments, however the amendments to paragraph 38 include a reference to 'cost' in accordance with IAS 39. We note that IAS 39 does not define the term 'cost' and suggest the proposed amendment to paragraph 38 be changed to remove this reference.

We note that the classification of subsidiaries, if an entity chooses to measure them in accordance with IAS 39, has been restricted to fair value through profit or loss. It is not clear why an entity should be precluded from measuring such investments as if they were classified as Available for Sale, and suggest that the restriction is removed.

We also note that the revised paragraph 38, in referring to the requirement that an entity 'shall account for investments in subsidiaries, jointly controlled entities and associates' might imply that, if the option to account under IAS 39 is taken, then all of the requirements of IAS 39 apply (including, for example, derecognition). We assume that this is not the intention, and suggest that the first sentence of the revised paragraph 38 is amended to focus on measurement rather than accounting.

Paragraph 38 (as amended) might read:

'When an entity prepares separate financial statements, it shall measure its investments in subsidiaries, jointly controlled entities and associates either:

a) at cost; or
b) in accordance with the measurement requirements of IAS 39.

Regardless of whether such investments are measured at cost or in accordance with the measurement requirements of IAS 39, their carrying amounts shall be subject to the impairment provisions of IAS 39. The entity shall apply the same measurement approach for each category of investments. Investments measured at cost, or in accordance with the measurement requirements set out in IAS 39 for financial assets classified as Available for Sale, shall be accounted for……….in accordance with IFRS 5. Where investments are measured at fair value through profit or loss in accordance with the measurement requirements of IAS 39, their measurement is not affected in such circumstances.'

Paragraph 38D would then be deleted.

IAS 28 *Investments in Associates*

The wording of the proposed amendment and the accompanying basis for conclusions might be taken to mean that the total shareholding that each individual entity (parent or subsidiary) holds should be analysed separately. We consider that, if a single entity has two divisions, with one being an entity to which the scope exclusion in paragraph 1 applies and the other to which the scope exclusion in paragraph 1 does not apply, the investment held by each division should be analysed separately.

It is also not entirely clear whether the approach set out in paragraph 1A should be applied only in the consolidated financial statements of an ultimate parent company, or whether it should be applied at subconsolidation and individual entity level.

Questions might also arise over whether a remaining investment (as referred to in the final sentence of paragraph 1A) needs, on a stand alone basis, to meet the definition of an associate.

We suggest that paragraph 1A is amended to read:

'If an entity determines in accordance with paragraphs 6-10 of this Standard that it has significant influence in an associate, the entity shall apply this Standard. The term 'entity' includes a consolidated group of companies headed by either the ultimate, or an intermediate, holding company, and an individual entity. If a portion of the entity's investment in the associate qualifies for the scope exclusion in accordance with paragraph 1, the entity shall apply the scope exemption only to the portion of its investment in the associate to which the scope exclusion applies. The remaining investment in the associate shall be accounted for in accordance with this Standard, even if that remaining investment would not, on a stand alone basis, meet the definition of an investment in an associate.'

In addition, if this proposed amendment is made to IAS 28, we suggest that a similar amendment is made to IAS 31 to provide the same additional scope exemption.

IAS 34 *Interim Financial Reporting*

In response to the specific questions set out in the exposure draft:

Question 3

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?

We agree that the proposed amendment is likely to lead to more useful information being made available to users of interim financial reports.

However, we note that in some jurisdictions, listed entities are required to prepare and file/publish interim financial information quarterly within 45-60 days of the period end, and that there are proposals in certain jurisdictions to reduce this time period further. Some entities may encounter practical difficulties in obtaining all of the information required by the expanded disclosures on a quarterly basis within their statutory reporting deadlines.

It may be appropriate for the Board to conduct further research to determine the extent to which it is feasible for the suggested disclosures to be obtained on a quarterly basis, and whether it might be appropriate to require these disclosures only in statements for the six monthly interim period. As an example, paragraph 15C might be amended to require a narrative explanation of changes in the first and third quarterly reports (with numerical information being encouraged), with numerical information being required only in the half year report.

Question 4

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?

We agree that requiring particular disclosures to be made in interim financial statements is a more effective way of ensuring users are provided with useful information.

However, there is a risk that the deletion of the reference to materiality in paragraph 16A might lead some preparers to conclude that all of the disclosures listed in this paragraph are required, regardless of their significance. We do not support the concept of this type of 'boiler plate' disclosure, and assume that the Board's intention is that materiality will still apply, through reference to paragraph 31 of IAS 1.

If this is the case, we believe that the Board needs to make specific reference to this point in its basis for conclusions in order to clarify the amended requirements of IAS 34.

IAS 40 *Investment Property*

The amendment to paragraph 57(b) removes the ability of an entity to transfer an asset from investment property to inventory. However, paragraph 60 states 'For a transfer from investment property carried at fair value to owner-occupied properties or inventories …'. We suggest that 'or inventories' and 'or IAS 2' are deleted from paragraph 60

We suggest that paragraph 58A (b) is amended as, although it refers to the disclosure requirements of IFRS 5, the disclosure requirements in IFRS 5 itself refer only to those assets and liabilities that are classified as held for sale. The amended paragraph might read:

'(b) if the investment property does not meet the criteria to be classified as held for sale, continue to apply this Standard and provide the disclosures required by paragraphs 38 and 40-42 of IFRS 5 as if the investment property meets the criteria to be classified as held for sale.'

In response to the Board's specific question, we agree that the proposed amendments to IAS 40 *Investment Property* should be included within *Improvements to IFRSs*; a separate project should not be undertaken to address this issue.