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Sir / Madam,

Below are given our comments on amendments proposed in exposure draft on improvements to IFRSs 2009. We would be glad to provide any further information on our views expresses below.

Comment on Proposed Amendment to IFRS 1 – First-time adoption of International Financial Reporting Standards

Para 27: Applicability of IAS 8 to first IFRS financial statements:

The proposed amendment to IFRS 1 making IAS 8's requirements inapplicable in any of the entity's reporting periods if such periods fall before the entity presents its first IFRS financial statements is **not welcome**. We give below the following reasons to substantiate our view:

- Para 11 of IFRS 1 make it clear that the adjustments in an entity's opening IFRS statement of financial position due to changes in accounting policies that the entity uses as per IFRS and those that it used for the same date using its previous GAAP results from events and transactions before the date of transition to International Financial Reporting Standards. Therefore, an entity is required to recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to International Financial Reporting Standards.

  Thus the main focus of Para 11 is on the date of transition to IFRSs. The purport of Para 9 is that if an entity changes its accounting policies after the date of transition to International Financial Reporting Standards the requirements of retrospective application and the transitional provisions of new pronouncements would apply as per IAS 8 as the entity on that date would have already transited to International Financial Reporting Standards and therefore should not be recognised directly in retained earnings but in statement of comprehensive income as part of profit or loss.

  Therefore, in our view, the proposed change would be in conflict with the requirements of Para 11 of IFRS 1.

- Para 27 of IFRS 1 stresses on the date of adoption of IFRS. Supposing an entity presents one year comparatives, an entity whose date of transition is 01 January 2010 would be adopting IFRS on 01 January 2011. Thus, to any changes in accounting policies that occur on 01 January 2011, IAS 8's requirements would not be applicable and therefore no disclosures

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about changes in accounting policies would need to be presented in an entity's first IFRS financial statements.

If we read Para 27 with Para 11, it comes out that IAS 8 will not be applicable for any changes in accounting policies till the date of adoption of IFRS. However, after the date of adoption of IFRS, any change would have to be recognised, measured and disclosed in accordance with International Financial Reporting Standards. Thus, if the entity, in the above case, changes its accounting policies on 01 July 2011, it has to apply IAS 8 to ensure that previous six months financials are in accordance with IFRS. This would also mean that if the transaction, event or condition was first effected after the date of transition to IFRSs, the effects of the change would have to be reflected either in the comparative period's Statement of Comprehensive Income or current period's Statement of Comprehensive Income.

- Para 7 requires an entity to use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its IFRS financial statements. Those accounting policies are to be compliant with each IFRS effective at the end of its first IFRS reporting period.

  Thus, the purport of Para 7 is that same accounting policies should be used from date of transition to IFRS to date of first annual financial statements in which an entity makes an explicit and unreserved statement of compliance with IFRS. Let's say an entity prepares interim financial reports by making an explicit and unreserved statement of compliance with IAS 34 every quarter except the last quarter. Also, suppose the entity would be presenting its first annual IFRS financial statements on 31 December 2011. Thus, its date of adoption would be 1 January 2011 and its date of transition would be 01 January 2010, assuming that the entity presents only one year as comparative. Thus, the entity would have to use same accounting policies from 1 January 2010 to 31 December 2011. Any change in accounting policy within these two dates would have to be applied retrospectively from 01 January 2010 and the effects of the same being recognised either on retained earnings as on 01 January 2010 and / or in statement of comprehensive income for the period ended on 31 December 2010 and / or statement of comprehensive income of the period ended on 31 December 2011.

  Therefore, the amendment to Para 27 would be in conflict with Para 7 of IFRS 1.

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- We draw attention to Para 18 of IAS 1 which categorically states that disclosures cannot rectify the use of inappropriate accounting policy. Once an entity adopts IFRS, it has to follow all International Financial Reporting Standards. The proposed amendment would make the interim financial reports presented in the periods of entity's first IFRS financial statements less reliable and would defeat the objective of financial statements specified in the Framework for the Preparation and Presentation of Financial Statements.

- Rather than making entire IAS 8 inapplicable, it would be better to retain the current position that IAS 8's disclosure requirements are not applicable. If entire IAS 8 is made inapplicable, all changes during the periods presented in an entity's first IFRS financial statements would be effected prospectively. If previous GAAP too requires prospective application, then there would be no updation to reconciliations.

Comment on Proposed Amendment to IAS 1 – Presentation of Financial Statements

Para 106: Statement of Changes in Equity

The proposed amendment to IAS 1 allowing flexibility in presentation of statement of changes in equity either as a separate component or in notes is **not welcome**. We give below the reasons to substantiate our view:

- Addition of one more presentation option would make the IFRS financial statements less comparable. Already there are many presentation options within IAS 1 which has been criticized by many. The Discussion Paper, "Preliminary Views on Financial Statement Presentation" states that alternative presentations make it difficult for users to compare financial information across entities. The Board should move towards reducing the presentation options rather than adding one more option.

- Statement of Changes in Equity is identified as a separate component of a complete set of Financial Statements by Para 10 of IAS 1 – Presentation of Financial Statements. Letting the Statement to be presented in the notes would result in it not being a separate component and thus in conflict with Para 10. In view of the above, we would like to keep the status quo, that is, to present Statement of Changes in Equity as a separate component and showing all changes in components of equity in that statement.

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Comment on Proposed Amendment to IAS 8 – Accounting Policy, Changes in Accounting Estimates and Errors

Para 10, 14 and 20:

The proposed amendment to IAS 8 to make the terminology consistent with the new framework that is not yet effective and is incomplete is **not welcome** at present. We give below the reason to substantiate our view:

*"**Haste makes Waste**"*. The board should amend IAS 8 terminology once the new framework is in place. Till that time, all the standards and interpretations are based and should be based on existing framework. Amending one particular standard to reflect the new framework and not others would make International Financial Reporting Standards internally inconsistent. Also, the new framework is still incomplete as it addresses only few aspects of financial reporting. Amending any standard on the basis of an incomplete framework which is not yet effective would be a haste that could result in waste.

Comment on Proposed Amendment to IAS 27 – Consolidated and Separate Financial Statements

Para 38:

The proposed amendment to IAS 27 to give an option to classify investments in subsidiaries, associates and jointly controlled entities at Fair Value through Profit or Loss is **not welcome**. We give below the reasons to substantiate our view:

- Para 9 on Definition of Financial Asset or Financial Liability at Fair Value through Profit or Loss, Para 46(c) and Para AG80 and 81 of IAS 39 provide principles, rules and guidance on the circumstances when a financial instrument should be measured at cost. Thus, simply saying that investments in subsidiaries, associates and jointly controlled entities should be accounted in accordance with IAS 39 should suffice. We don't understand the need to give an option of cost or fair value through profit or loss when both are to be accounted in accordance with IAS 39.

  We do not see any need to specify a rule that all investments in subsidiaries, jointly controlled entities and associates should be either at cost or at fair value through profit or loss. It is enough to say that such investments should be accounted for in accordance with IAS 39. The board should provide further guidance for classification of such instruments in

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IAS 39 itself rather than specifying classification in a standard that neither deals with classification nor with recognition and measurement of financial instruments. All requirements for classification, recognition and measurement of financial instrument whether they be investments in subsidiaries, associates or jointly controlled entities should be contained in only one standard or a collection of standards that deal with financial instruments.

- Para 4(a), 2(a) and 3(a) of IAS 32, IAS 39 and IFRS 7 respectively, contain scope exemption for interests in subsidiaries, jointly controlled entities and associates when such interests are not derivatives and are accounted for in accordance with IAS 27, IAS 31 and IAS 28 respectively. We propose that these standards be amended to remove the scope exemption which would reduce complexity. Though the board is currently in a project to reduce complexity of financial instruments standard, this amendment should be made as part of annual improvements to the scope of financial instruments standards.

- We do not see any reason for not requiring investments in subsidiaries, associates and jointly controlled entities that are accounted for at fair value through profit or loss to be measured in accordance with IFRS 5 "Non Current Assets held for Sale and Discontinued Operations". Para 15 and 15A require non-current assets held for sale to be measured at the lower of carrying amount and fair value less costs to sell. If the investment is measured at fair value with changes in fair value being recognised in the statement of comprehensive income as profit or loss, on classification of such investment as held for sale, the difference between the carrying amount and fair value less costs to sell would the costs to sell. Exempting a particular type of investment measured in a particular way from the requirements of IFRS 5 is a rule that introduces complexity without any corresponding benefits.

- In view of the above, we propose the following amendments:
    - Amendment to Para 38 of IAS 27 to require all investments in subsidiaries, associates and jointly controlled entities to accounted for in accordance with IAS 39 in the Separate Financial Statements of an entity
    - Amending Para 4(a), 2(a) and 3(a) of IAS 32, IAS 39 and IFRS 7 respectively to remove the scope exemption for interests in subsidiaries, associates and jointly controlled entities
    - Removing the exception for investments in subsidiaries, associates and jointly controlled entities measured at fair value through profit or loss from applicability of IFRS 5 on their classification into held for sale.

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Comment on Proposed Amendment to IAS 28 – Investment in Associates

Para 1A:

The proposed amendment to IAS 28 to allow scope exclusion in Para 1 to a portion of an investment in associate is welcome as it is consistent with the business purposes for which the portions are held. However, it depends on management's intention and hence has significant scope of being abused. Hence, we propose further guidance to be provided on circumstances when an investment can be separated into portions and when not.

Lastly, if the Board does not agree with our views expressed above, we request the Board to add further guidance and provide basis of conclusions for not agreeing with the above.

Thank you.

Regards,
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