Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

24 November 2009

Dear IASB member

Invitation to comment – Exposure Draft (ED/2009/11) of Proposed Improvements to International Financial Reporting Standards

The global organisation of Ernst & Young is pleased to submit its comments on the above Exposure Draft (ED).

We discuss below some of the broader issues raised in the ED. Our responses to specific questions in the Invitation to Comment are set out in the Appendix to this letter.

We support most of the proposed amendments, although we have some suggestions for clarifications which are included in the Appendix. However, we disagree with the following proposed amendments:

- IFRS 1 - Revaluation basis as deemed cost
- IAS 8 - Change in terminology to the qualitative characteristics
- IAS 27 - Impairment of investments in associates in the separate financial statements of the investor

IFRS 1 - Revaluation basis as deemed cost
We disagree with the proposed amendments to IFRS 1 because the proposal appears inconsistent with the main objective of IFRS 1 – to provide relief for entities adopting IFRS. We have, however, proposed an alternative approach. Please see further discussion under Topic 1.2 in the Appendix.

IAS 8 - Change in terminology to the qualitative characteristics
We disagree with the proposed amendments to IAS 8 as we do not believe the proposal meets the objective of annual improvements. The proposed amendments are also inconsistent with the basis for conclusions for the amendments. Please see further discussion under Topic 6.1 in the Appendix.

IAS 27 - Impairment of investments in associates in the separate financial statements of the investor

We disagree with the proposed amendments to IAS 27 as we do not believe the proposal meets the objective of annual improvements. The proposal is not just a clarification, rather it inappropriately and fundamentally changes the existing requirements without sufficient justification. Please see further discussion under Topic 7.1 in the Appendix.

Should you wish to discuss the contents of this letter with us, please contact Lynda Tomkins or Veronica Cai at the above address, or on +44 (0) 20 7951 0241 or +44 (0) 20 7951 2761, respectively.

Yours faithfully

Ernst & Young

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

1.1 Accounting policy changes in the year of adoption

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We generally agree with the proposed amendments. However, we believe the amendments to paragraph 27A and paragraph 32 (c) should indicate the period from which the disclosures are required, as stated in the introduction to the amendment. We also believe that paragraph 24 already requires an updated reconciliation in the first IFRS financial statements thus only the explanation is required if there is a change after the first interim report. Therefore, we suggest the following drafting changes (underlined) to paragraph 27A (and replicated in paragraph 32 (c) as noted further below):

> If during the period covered by its first IFRS financial statements, an entity changes its accounting policies or its use of the exemptions contained in this IFRS <u>after it has published an interim financial report</u>, it shall explain the changes in accordance with paragraph 23 ~~and update the reconciliation required by paragraph 24(a) and (b)~~.

Additionally, we believe that it is not clear what 'update' means in paragraph 32(c). It could be interpreted as the effect of the changes from the previous interim period to the current interim period or re-perform the entire reconciliation as of the current interim period. We believe the requirement is to re-perform the entire reconciliation in paragraph 32(b). Accordingly, we suggest the following drafting changes (underlined) to paragraph 32(c):

> If during the period covered by its first IFRS financial statements, an entity changes its accounting policies or its use of the exemptions contained in this IFRS<u> after it has published an interim financial report</u>, it shall explain the changes in accordance with paragraph 23 and <u>re-perform</u> ~~update~~ the reconciliations required by ~~this~~ paragraph <u>32(b) as of the current interim period</u>.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

1.2 Revaluation basis as deemed cost

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We disagree with this proposal primarily because it may not give relief from determining a deemed cost on the date of transition; an entity may have to perform two valuations (once at the date of transition and another at the event date) if cost cannot be determined. This is inconsistent with the main objective of IFRS 1 to provide relief when adopting IFRS.

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An alternative proposal
We believe the approach discussed in BC 5 should be permitted as a third alternative to determining deemed cost at the date of transition. That is, using an event-driven measurement that is determined at a date subsequent to the date of transition, adjusted to exclude any new acquisitions, depreciation, amortization or impairment between the date of transition to IFRS and the date of that measurement. We believe this approach would result in decision-useful information and provide relief for entities converting to IFRS. We also believe that in practice this is easier to achieve.

The Board rejected this approach on the basis that making such adjustments requires hindsight and the computed carrying amounts on the date of transition are neither the revalued assets' historical costs nor their fair value on that date. We acknowledge that hindsight is used, however, we believe that the period within which hindsight would be used is limited. We also acknowledge that the result is neither the assets' historical cost nor fair value, as currently required by paragraph D6, however, do not see a reason to restrict deemed cost to only those two methods.

If the Board proceeds with the amendment as proposed, we have the following additional comments.

Disclosures
If an entity applies this exemption to revalue an asset based on an event-driven measurement subsequent to the date of transition to IFRS, its assets will have two different measurements in the periods covered by its first IFRS financial statements (one at transition date and the other at the event-driven measurement date). BC 6 states "…such a revaluation would already be highlighted in the first IFRS financial statements and disclosures, the proposed presentation clearly identifies the effects of any significant difference in depreciation or amortization between the periods before and after the date of measurement." The proposed amendment to paragraph 27A and 32 (c) of IFRS 1 provides disclosure requirements for changes in accounting policy or change in use of exemptions under IFRS 1 that occurred during the period covered by the first IFRS financial statements. It is not evident that it includes the disclosure that BC6 suggests, as we do not believe that the use of this exemption would necessarily constitute a change in accounting policy or a change in use of exemptions (given that the initial exemption for deemed cost at date of transition would still have been applied). Accordingly, we suggest an additional paragraph be inserted similar to the following:

> <u>If an entity elects to use an event-driven fair value measurement that occurs after the date of the transition to IFRS, for all or some of its assets, the entity's first IFRS financial statements shall disclose, for each line item in the statement of financial position:</u>
>
> (a) <u>the aggregate of those fair values; and</u>
> (b) <u>the aggregate adjustments to the carrying amounts.</u>

Similar requirements should also be included for disclosures in interim financial statements.

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Classification of adjustments
Paragraph 11 of IFRS 1 requires adjustments arising from adopting IFRS to be recognised directly in retained earnings or another category of equity at the date of transition to IFRS. If an entity revalues its assets based on an event subsequent to the date of transition, we believe the related adjustment should also be recognised directly in equity or, if appropriate, another category of equity at the date that the event occurs. Currently the proposals do not indicate where such an adjustment should be recognised, and some may read paragraph 11 as indicating that the adjustment cannot be made directly to retained earnings. We therefore recommend that this be clarified by inserting an additional paragraph similar to the following:

> If an entity elects to use an event-driven fair value measurement that occurs after the date of the transition to IFRS, for all or some of its assets, the entity shall recognise the resulting adjustments from the revaluation directly in retained earnings (or, if appropriate, another category of equity) at the date the event occurs.

Other
The following are drafting comments to remove potential ambiguity in the interpretation of paragraph D8 (the changes are underlined):

> A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering.
>
> a) If the measurement date is at or before the ~~end of the first IFRS reporting period~~ date of transition*, the first-time adopter may use such event-driven fair value measurements as deemed cost for IFRSs at the date of that measurement.
>
> b) If the measurement date is after the first-time adopter's date of transition to IFRSs but before the end of the first IFRS reporting period*, ~~the entity may elect a deemed cost at the date of transition that meets the criteria in paragraphs D5–D7~~ the first-time adopter may use such event-driven fair value measurement as deemed cost at the date of that event. ~~The event-driven fair value measurement within the entity's first IFRS reporting period is recognised as deemed cost when the event occurs.~~ The entity may then also elect a deemed cost at the date of transition that meets the criteria in paragraphs D5–D7.

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 and what alternative do you propose?

The proposal allows certain existing IFRS reporters, not just first time adopters, to apply this exemption to their first IFRS financial statements. Although the option for existing reporters is limited (within the first annual period after the amendment is effective), this is precedent-setting with respect to amendments to IFRS 1 being applicable to existing IFRS reporters. The reasons and the criteria for this amendment have not been provided in the proposal. Similarly, without such reasoning it is not clear as to when such decisions could be reached for future amendments to IFRS 1 creating uncertainty for the future. Accordingly, we suggest that the Board includes its basis for this approach and expose for comment the principles it will apply to future amendments when deciding what may be appropriate for existing IFRS reporter.

Existing IFRS reporters are scoped out of IFRS 1. Accordingly, amending IFRS 1 to encompass actions that such entities can take will unlikely achieve the result desired. Therefore, we suggest the Board include this requirement as an amendment to either IAS 1 or IAS 8.

Topic 2: IFRS 3 *Business Combinations*

2.1 Measurement of non-controlling interests

Question 1: Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board’s intention for this amendment. However, the amendment introduces two conditions for instruments to be measured at the proportionate share of the acquiree’s net assets: ‘present ownership instruments’ and ‘entitlement to pro rata share of the entity's net assets in the event of liquidation’. We believe the second condition is confusing and inconsistent with paragraph 19 of IAS 27, and should therefore be deleted.

We are aware that the Board has decided to review and reassess the appropriateness of the definition of NCI at a later date. However, we believe the Board should clarify that NCI includes option, warrants etc as part of this process to avoid confusion. This is already clear in BC1 of the proposal and in the November IFRIC Update, but should be stated in either IFRS 3 or IAS 27.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date. However, we believe retrospective application should only be required when the fair value was determined at that date rather than using hindsight.

2.2 Un-replaced and voluntarily replaced share-based payment awards

Question 1: Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposal. However, we have some comments noted below.

Paragraph B62A proposes that vested share-based payment awards would be measured at ‘fair value’ by the acquirer. Use of the term ‘fair value’ implies that that the awards are financial instruments and the awards are within the scope of IAS 32 instead of IFRS 2. However, we believe that the awards should be within the scope of IFRS 2 and believe this is the intention of the board, given

(1) the basis for the proposal in BC2, and

(2) the proposal's refer to such awards as 'share-based payment transactions' which is a defined term in IFRS 2.

Accordingly, such awards should be measured at their 'market-based measure' consistent with paragraph 30 and B56 of IFRS 3 and suggest 'fair value' in paragraph B62A be replaced with 'market-based measure'.

As a drafting point, we believe that 'in accordance with paragraphs 19 and 30.' should be deleted from the end of paragraph B62A, as neither of these paragraphs discuss determining grant date, and therefore result in this being a circular discussion.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date, except for the following points:

- To prevent entities from applying hindsight when determining the fair value (or market-based value, or other measurement basis as appropriate under the respective IFRS) of the non-controlling interest, retrospective application should only be required when the fair value (or other applicable measurement basis) of such non-controlling interests was determined contemporaneously with the transaction.
- To avoid misinterpretation of the transition of these requirements, we recommend inserting the following (or similar) into paragraph 64A:

  'An entity shall apply the amendments prospectively from the date at which it first applied IFRS 3 (as revised in 2008).'

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

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

While we agree with the proposal, we do not agree with all of the statements in BC 4.

BC 4 states that IAS 39 applies to all contingent consideration until this amendment becomes effective. However, we believe that when read with IFRS 3 and the restriction on adjusting contingent consideration arising from past business combinations, the amendment to IAS 39 can be interpreted to apply only to contingent consideration arising from new business combinations. Therefore, we suggest adding "Some may interpret" at the beginning of paragraph BC4 so as not to be overly restrictive on such interpretations for reporting periods ending prior to this amendment becoming effective.

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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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Topic 3: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

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

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed amendment and believe the proposal is a logical extension of the 2008 IFRS Annual Improvements. However, while it seems counter-intuitive some in practice believe that the same logic applies to 'gain of control' when an entity purchases additional interests because there is a significant change in the nature of the investment and there is an exchange of assets (i.e., an asset is derecognised and a new asset of a different nature is recognised). The Board acknowledges this in BC2 and notes that such events do not result in the classification of held for sale. We agree with this, however believe clarification of this directly within the standard itself would be more beneficial. We suggest that the last sentence in BC2: "…an entity shall not classify as held for sale its investment in an associate or a jointly controlled entity in accordance with IFRS 5 when it is highly probable that control will be obtained because there will be no sale." to be included in the standard itself rather than only in the basis for conclusions.

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 and what alternative do you propose?

We believe the proposed effective date of 1 January 2010 is a typographical error because the standard on annual improvement will not be issued until April 2010. We would not be able to comment on this until we know the intended effective date although we believe it should be 1 January 2011 to be consistent with other similar amendments.

Topic 4: IFRS 7 *Financial Instruments: Disclosures*

4.1 Clarifications of disclosures

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the amendments as proposed. However, we believe that the term 'financial effect' in paragraph 36(b) (also in BC5) should be defined as the term is not used in IFRS. We also believe the example given in the paragraph is not exhaustive. Accordingly, we suggest the Board to provide a definition for 'financial effect' and state whether the example is exhaustive.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Topic 5: IAS 1 *Presentation of Financial Statements*

5.1 Clarification of statement of changes in equity

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the intention of the amendment. However, as discussed in BC1 the amendment is only intended to allow flexibility for the disclosure of the reconciliation requirements for classes of accumulated other comprehensive income. The revisions proposed, however suggest that the entire statement of changes in equity can be shown in the notes to the financial statements. Therefore, we propose the following drafting changes (underlined) to paragraph 106:

> An entity shall present a statement of changes in equity showing in the statement ~~or in the notes~~ <u>(except for the reconciliation for each item of other comprehensive income, which may be presented in the notes to the financial statements):....</u>

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Topic 6: IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

6.1 Change in terminology to the qualitative characteristics

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We disagree with this proposal. We believe the proposal is not within the scope of the annual improvement project as the change is a consequential amendment of another amendment that has yet to be issued. Accordingly, IAS 8 should be revised as part of that process.

The proposed amendment for IAS 8 is also inconsistent with BC2 because IAS 8 is not being amended "for other reasons".

BC 2 states that other IFRSs will be updated “when those IFRSs are being amended for other reasons”. We do not believe that this is reasonable as some standards may not be “amended for other reasons” for a long time, or perhaps never. This will therefore potentially result in internal inconsistency and confusion over the terms for some period (e.g., reliable). We believe all changes in terminology should be made at the same time as the framework chapter is finalized.

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 and what alternative do you propose?

We disagree with the proposed amendment and therefore have not commented on this question. However, if the Board proceeds with the amendment we believe the effective date should be consistent with the effective date of the chapter of the framework. If it is issued as an amendment after the revised framework chapter becomes effective then this amendment should become effective immediately.

Topic 7: IAS 27 *Consolidated and Separate Financial Statements*

7.1 Impairment of investments in associates in the separate financial statements of the investor

Question 1: Do you agree with the Board’s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

While we agree with the objective to clarify the impairment requirements, we do not believe the proposal is appropriate. However, the proposal is not just a clarification. The way it is drafted, it is a significant change in the existing principles. Accordingly, we do not believe the proposal meets the criteria for the annual improvement project. Additionally, we believe the Board should challenge the reason for the amendment when the cost option in IAS 39 will be eliminated in the near future.

Impairment approach
We disagree with the Board’s proposal that the impairment assessment should be conducted in accordance with IAS 39. We believe that IAS 36 is more appropriate for the impairment assessment of these investments in the parents’ separate financial statements, for the following reasons:

- An impairment assessment would already have been conducted in the consolidated financial statements in accordance with IAS 36. While the investments are presented as an investment, and performance of the investment is assessed in that capacity, the relationship between the parent and the subsidiary or the investee is not the same as any other investment, due to the control or significant influence that the parent has over the actions of the subsidiary/investee. The option to allow cost as a measurement method reflects this, therefore this cannot be ignored for the impairment test.

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We also note an additional issue due to the replacement for IAS 39 (i.e., IFRS 9) which has eliminated the cost option (and therefore the impairment testing approach for assets at cost). Therefore, if the Board does require IFRS 9 / IAS 39 to apply, additional impairment requirements will need to be determined for these investments

Measurement approach
IAS 39 has restrictions on which investments can be classified and measured at cost and at fair value through profit or loss. Under IAS 39 equity investments may be carried at cost only when an entity cannot reliably determine their fair value. Similarly, to be carried at fair value through the profit or loss (FVTPL) when not held for trading, investments must meet specified criteria. As the proposal is to have measurement 'in accordance with IAS 39' it can be interpreted that these restrictions must also apply, which may result in neither method being used to value the investments.

We do not believe that was the intention of the Board, and therefore disagree with the proposed amendment to 38 (b) and the drafting changes in the first line following that. <u>We believe the insertion of paragraph 38D is sufficient to indicate under which standard the impairment test should be conducted, which we believe is the only reason for the amendment.</u>
.

If it was the Boards' intention to restrict how the cost method is applied, additional revisions are needed to IAS 39 to resolve the issue above. An additional issue also arises due to the replacement for IAS 39 (i.e., IFRS 9) which has eliminated the cost option altogether. This will require an additional amendment to IAS 27, as we do not believe it is appropriate to remove the cost option as a valuation method in separate financial statements without a more thorough analysis of the consequences.

FVTPL versus AFS / FVTOCI
The available for sale classification is currently an option under IAS 27, however, the ED proposes to remove it without any explanation other than "that the purpose of separate financial statements is on the performance of the assets as investments".. However, the available for sale classification (and, under IFRS 9 the fair value through other comprehensive income classification) are acceptable methods of assessing the performance of assets as investments. Accordingly, we are unable to assess whether the proposed amendment is appropriate without knowing the reason for rejecting these classification options. Accordingly, we disagree with this element of the proposal.

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 and what alternative do you propose?

We disagree with this proposal and have therefore not answered this question.

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7.2 Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28, and IAS 31

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed amendments.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Topic 8: IAS 28 *Investments in Associates*

8.1 Partial use of fair value for measurement of associates

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed amendments as we believe this better reflects the business model of the entity.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Topic 9: IAS 34 *Interim Financial Reporting*

9.1 Significant events and transactions

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We do not believe prescribing specific disclosures as proposed in paragraph 15B is consistent the principle-based approach. Accordingly, we suggest retaining the existing text that the points noted are examples of the types of events or transactions to be disclosed.

We also have the following comments:

- The revised text in paragraph 15 refers to 'equivalent information'. We believe the information in the most recent annual report that needs updating is the same as that referred to in paragraph 15C where the term 'relevant information' is used. Accordingly, the same terminology should be used in both places. We believe 'relevant' is more appropriate. If these are not to be referring to the same thing, the Board should define what it is so that the difference is clear.

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- We believe 'significant' in paragraph 15B (h) and (k) should be deleted because all the requirements in paragraph 15B are only for significant events and transactions, as stated in the opening paragraph.

- We believe the scope of paragraph 15B (l) is inconsistent with the basis for conclusions for the amendment – the proposal applies to all assets, however BC1 indicates that the purpose of the amendment is to bring in IFRS 7 disclosures which means the paragraph should only apply to financial assets. Accordingly, we believe the Board should provide further clarification by either adding the word 'financial' to paragraph 15B(l) or explaining in the basis for conclusions the reasons that the requirement applies to all assets.

- The term 'material' is replaced by 'necessary' in paragraph 16A. We do not believe that the change to 'necessary' has resulted in an improvement, as it is not clear what this actually means. On what basis is something assessed as 'necessary'? No reason for this change is given in the basis for conclusion to assist with answering this question. Accordingly, we suggest the Board to define 'necessary' or revise its terminology.

- Paragraph 41 of IAS 34 still refers to 'material', while it has been deleted from other paragraphs by the proposal. We recommend the Board consider its proposal relating to the use of the term 'material' and apply this consistently throughout the standard.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

Question 3: The Board proposes changes to IAS 34 Interim Financial Reporting to emphasise its disclosure principles. It also adds to the guidance 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?

We believe the existing principles under IAS 34 are generally sufficient. The risk of providing all of the information in every financial report is that significant developments or changes may get lost in the details hence not being decision useful. Therefore, we do not agree that all annual disclosures should be required in interim reports. However, while judgment is necessary to determine additional interim disclosures, including examples in the standard will highlight potential additional information need of users. Therefore we would agree if the annual disclosure requirements are referred to as examples of potential additional disclosures in interim reports. See additional discussion on interim reports below.

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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? What approach would you propose instead and why?

As discussed in Question 1, we believe the proposed approach to prescribe specific disclosures is inconsistent with the principle-based approach. Additionally, we believe examples are sufficient to drive a certain level of consistency in disclosures. Otherwise, it may be overly restrictive and eventually turn into a checklist which may not produce useful information. We believe the examples can be updated every now and again to reflect new areas of potential disclosures but preparers should be allowed the flexibility to exercise judgment in determining the necessary disclosures. Management's assessment would be reinforced by auditors and regulatory enforcement.

Topic 10: IAS 40 *Investment Property*

10.1 Change from fair value model to cost model

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board's intention to eliminate the inconsistencies in the guidance regarding the classification of investment property. However, we do not believe the proposed amendment meets this objective. Rather, it addresses only some of the underlying issues. For example, management intent is contemplated in some but not all of the conditions. We believe paragraph 57 establishes a guiding principle regarding the classification based on whether there is a change in use. However, some interpret the list of conditions in paragraph 57 as exhaustive, and therefore, apply this guidance in practice in a very narrow and rigid sense given the reference to "evidenced by" in that paragraph. We believe the conditions under paragraph 57 should be non-exhaustive, and suggest the following changes (underlined) to that paragraph.

> Transfers to, or from, investment property shall be made when, and only when, there is a change in use. <u>Examples include</u>: ….

Additionally, we believe the reference to inventory and IAS 2 in paragraph 60 should be deleted given that paragraph 57 (b) is deleted. The phrase "or the entity begins to develop the property for subsequent sale in the ordinary course of business" in paragraph 55 should also be deleted for the same reason.

Further, we agree with the proposal in paragraph 58A and believe it clearly states the accounting treatment of an investment property when an entity decides to sell it.

We believe paragraph 58A(b) should make it clear that the gain or loss that needs disclosing under paragraph 41(c) of IFRS 5 does not follow the measurement principle of IFRS 5. We suggest the following drafting changes (underlined) to paragraph 58(b).

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> …continue to apply this Standard and shall provide the disclosures required by paragraph 38 and 40-42 of IFRS 5 (except for the reference to paragraph 20-22 in paragraph 41(c)) if the investment property does not meet the criteria to be classified as held for sale.

We also suggest the following changes (underlined) to paragraph 58 for consistency within the standard.

> When an entity decides to dispose of an investment property, ~~it continues to treat~~ the property remains ~~as~~ an investment property and is not reclassified as inventory ~~until it is derecognised (eliminated from the statement of financial position), and does not treat it as inventory~~. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.

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.

We believe that the proposed amendment should be included within the Improvements to IFRSs.

Topic 11: IFRIC 13 *Customer Loyalty Programmes*

11.1 Fair value of award credit

Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed; the value of the awards for which they could be redeemed must be adjusted to reflect expected forfeitures.

Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the amendment as proposed.

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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 and what alternative do you propose?

We agree with the proposed transition provisions and effective date.