IPFA
Institute for Public Finance and Auditing

30 August 2001

Sir David Tweedie
Chairman
International Accounting Standard Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: commentletters@iasb.org.uk

Dear David

PROPOSED IMPROVEMENTS TO IAS MAY 2002

The Institute of Public Finance and Auditing (IPFA) is a professional institute in South Africa. Our aim is to professionalise financial staff in the public sector.

During the last few years IPFA has been providing extensive support to the to the Accountant-General in the development of accounting standards for the public sector in South Africa. Based on our experience and given our membership of the IFAC PSC, the close relation between the accounting standards issued by the IFAC PSC and the standards to be issued by the IASB, we welcome the opportunity to participate in international accounting standards setting process.

Find attached our comments. Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Erna Swart
TECHNICAL DIRECTOR

IAS 1

We support the proposed changes, except for the items listed below:

Number of employees
We support the retention of the requirement to disclose the number of employees (with comparatives) as it provides users with information useful to assessing contributions by employees. It would have been preferable if guidance was introduced on how to calculate the number of employees, i.e. the full time equivalent number of employees, and if it was readily apparent what was meant by the term “employee benefits expense” as referred to in paragraph 88. IAS 19 defines employee benefits as “all forms of consideration given by an entity in exchange for service rendered by employees”. Is it intended to have the same meaning?

Extraordinary items
We agree that extraordinary items should not be described as “extraordinary items” on the face of the financial statements and should be reported above the line.

However we believe that placing some emphasis to such items provides users with information useful to assessing the performance of an entity. We therefore recommend that IAS 1 should require that additional details regarding items that meet the definition of “extraordinary items” be disclosed in the notes to the financial statements.

Our preferred wording for the definition of extraordinary items, in line with IPSAS 1, is “Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity”.

Change in minority interest
We support the minority view that disclosing the change in minority interest on the face of the income statement implies that it is an item of income or expense. In our opinion, the decision in IAS 27 to present minority interest within equity should lead to a consequential amendment to this standard, being the removal of the item from the face of the income statement.

Responsibility for financial statements
We do not support the deletion of paragraph 6 (IAS1, 1997). We believe a statement by the preparers accepting responsibility is very important, and the deletion could suggest that accountability is considered less important.

IAS 2

We support the proposed changes.

IAS 8

We support the proposed changes.

IAS 10

We support the proposed changes.

IAS 15

We support the proposed withdrawal.

IAS 16

We support the proposed changes, except as listed below.

Initial Measurement: Dismantling Costs
It is proposed that paragraph 15A(e) regarding the treatment of dismantling costs be deleted. However, proposed paragraph 20A provides additional guidance on dismantling costs. Given that paragraph 20A makes it clear that the costs of dismantling and removing the asset and restoring the site are part of the cost of the asset, we are uncertain whether or not paragraph 15A(e) should be removed.

Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?
We are concerned that this proposal may not be entirely consistent with the depreciation requirements in paragraph 41 and the following paragraphs. Specifically, where a temporary idle period was always intended and was built into the estimate of the useful life of the asset, we are not convinced that depreciation should be charged. We do agree that consideration should be given to the appropriate depreciation in these circumstances and therefore do support some change to the existing wording of paragraph 59.

We agree that such an asset should be tested for impairment at each year-end.

Donated assets
Even though the proposed standard deals with assets acquired in exchanges, it does not deal with assets donated. As it is also not excluded from the scope of the standard, it is proposed that a paragraph is included to indicate that these assets should also be recognized at the fair value on the date the donation was received.

IAS 17

We support the proposed changes.

IAS 21

We support the proposed changes.

IAS 24

We do not support the proposed changes.

Removal of disclosure with regards to management compensation, expense allowances and similar items paid

We do not support the proposal to remove disclosure with regards to management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations. We believe that in the current climate with large reported financial reporting failures, it is neither opportune nor responsible to remove the requirement. While we understand the view that this disclosure is one of accountability, rather than financial reporting, there is currently no other body with the same influence and reach as the IASB.

As to the definition of 'compensation', the preferred approach would be to align the term with that used in IAS 19, namely 'employee benefits', defined as "all forms of consideration given by an entity in exchange for service rendered by employees".

The definition of 'management' could be resolved by replacing it with 'key management personnel' as used in the proposed public sector accounting standard with the same name:

"**Key management personnel** are:

(a) all directors or members of the governing body of the entity; and

(b) other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:
   (i) where there is a member of the governing body of a whole-of-government entity who has the authority for planning, directing and controlling the activities of the reporting entity, that member;
   (ii) any key advisors of that member; and
   (iii) unless already included in (a), the senior management group of the reporting entity including the chief executive or permanent head of the reporting entity."

Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

We do not agree with the proposed amendment. It is of particular concern that some transactions between a parent or wholly-owned subsidiary and related parties outside the group may be immaterial to the group and, if the exemption in paragraph 3 is used, would not be disclosed in either the entity's or the consolidated financial statements.

Substantiation

Paragraph 17 states that "disclosures that related party transactions were made on terms equivalent to those that prevail in arms' length transactions are made only if such disclosures can be substantiated". It is unclear who will substantiate such a claim, as the IASB does not have an enforcement arm. Accordingly, the word "substantiated" should be reconsidered.

IAS 27

We support the proposed changes, except for the following:

Indication that severe long term restrictions on the ability to transfer funds make it unlikely that control exist

Paragraph 12A and 13 of IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, has been amended to include a reference to bankruptcy. We would like the change to be explained, as the intention, and therefore the possible implementation of the standard, is not clearly understood. For example, a subsidiary is in financial difficulties and the majority shareholder and financial institutions introduce a rescue package. In terms of the rescue package, the company is precluded from declaring dividends until such time as the debt: equity ratios have recovered to an agreed level. One could claim that the subsidiary is in fact under the control of the financial institutions and therefore not consolidate, but the majority shareholder could elect to refinance the subsidiary and gain access to the reserves.

IAS 28

We support the proposed changes, but propose that the exclusions of venture capital organizations, mutual funds and unit trusts are clarified. We are aware of entities that claim to be mutual funds and have a single investment, or venture capitalists with five investments that would prefer to be excluded from the scope of this standard. Accordingly, our preference would be wording that indicate that only those organisations that are registered in terms of local legislation or designated as such where their shares, or debt, are traded publicly, are exempted.

IAS 33

We support the proposed changes.

IAS 40

We support the proposed changes.