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17 September 2002
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Dear Sirs

Invitation to comment on Improvements to International Accounting Standards

The Danish Institute of State Authorized Public Accountants (FSR) is pleased to submit the enclosed comments on the improvements to twelve International Accounting Standards which are a part of the IASB Improvement Project.

The exposure draft which was issued by IASB in May 2002 has been reviewed by the Danish Accounting Standards Committee (a committee set up by FSR) and by the Accounting Advisory Panel (representatives from Danish business organisations and the Copenhagen Business School).

The hearing process
Some of the exposure drafts (EDs) have been drafted only in "clean" versions and - additionally - some of the proposed changes are neither addressed in the summary of main changes, nor in the "Invitation to Comments" questions or even justified in the "Basis for Conclusions". Among these is IAS 1. In our opinion a marked-up version is necessary in order to carry through a proper hearing.

General issues
The concept of "impracticality" has been changed to a concept of "undue cost or effort", for example in IAS 1 and 8. We find that under this concept there would be a risk that different interpretations among enterprises will occur. The concept of impracticality seems to be a sounder concept, as it clearly indicates that the exemption would only be applicable in rare circumstances.

Specific comments to the proposed changes
Our specific comments appear from the enclosed appendix as follows:

1. IAS 1 Presentation of Financial Statements
2. IAS 2 Inventories
3. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
4. IAS 10 Events After the Balance Sheet Date

5. IAS 16 Property, Plant and Equipment
6. IAS 17 Leases
7. IAS 21 The Effects of Changes in Foreign Exchange Rates
8. IAS 24 Related Party Disclosures
9. IAS 27 Consolidated and Separate Financial Statements
10. IAS 28 Accounting for Investments in Associates
11. IAS 33 Earnings Per Share
12. IAS 40 Investment Property.

Yours sincerely

Eskild Nørregaard Jakobsen
Chairman of the Danish Accounting Standards Committee

IAS 1 Presentation of Financial Statements	
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?	**No, we do not agree** with the proposed approach. In our opinion, such an approach would be contrary to the very idea behind the establishment of an internationally accepted and applied set of accounting standards. Such a change of approach could undermine the confidence in and applicability of IFRS. It thus appears from the present standard, section 14, that: "existence of conflicting national requirements is not, in itself, sufficient to justify a departure in financial statements prepared…" We consider it important that such a section is re-introduced in IFRS no. 1. We consider it reasonable to continue to maintain an "override" provision as long as it can be used only in extremely rare circumstances, and as long as it is worded very restrictively and it is used only when it will lead to fair presentation. In paragraph 14 d, especially terms such as "each period" and "each item" seem unclear. We would like a clearer definition of these terms. In sections 10-18 of the previous IAS 1, a number of sections have been deleted from ED IAS 1 which we regret and do not understand. We suggest that a new review and evaluation of the chapter "Overall considerations" should be made so as to use a number of the excellent guiding sections deleted. Especially section 12 saying that improper accounting treatments are not rectified by disclosures seems to set up a fundamental principle.
Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?	**Yes, we agree**. However, we do not agree with the way in which extraordinary items are abolished. We agree that changes should be made in the area so as to limit the possibilities of presenting items as extraordinary items. On the other hand, we also find that in practice financial presentation calls for presentation of items which, by their nature, frequency, etc., are different from the "usual" ordinary items. We recommend that the topic related to presentation of extraordinary, unusual items,

	etc. is dealt with in the ”Reporting Financial Performance” project. Section 79 seems superfluous.
Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorized for issue (see proposed paragraph 60)?	**Yes, we agree** that the balance sheet should reflect the circumstances and events that were relevant at the balance sheet date. An event such as refinancing carried through after the balance sheet date is a non-adjusting event according to IAS 10, which should be disclosed in the notes to the financial statements.
Do you agree that: *(a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?* *(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:* *(i) the entity rectifies the breach within the period of grace; or* *(ii) when the financial statements are authorized for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?*	**Yes, we agree**. This is also a non-adjusting event to be dealt with in accordance with IAS 10. We presume that the breach of lending terms has, of course, taken place no later than at the balance sheet date. **Yes, we basically agree**. In practice, it will depend on the specific circumstances, including the company’s possibility of rectifying the breach. In general, it should be considered whether a general standard should include so detailed requirements regarding classification of specific liabilities, when the classification is actually determined by the general principle set up in IAS 10.s

Do you agree that an entity should disclose the judgments made by management in applying the accounting policies that have the most significant effect on the amounts of items recognized in the financial statements (see proposed paragraphs 108 and 109)?	**Yes, we agree** that an entity should disclose such judgments. However, we are concerned with the way in which IAS 1 (sections 108-109) prescribes that such judgments should be presented. We are concerned about the wording "the most significant effect". We would prefer the wording "significant effect" as the proposed wording could imply that enterprises having a number of judgments with a significant effect only disclose some of them. We would find it more relevant to address such disclosures in the MDA project.
Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?	In our opinion, such types of disclosures would be more natural in the management's review, cf. section 7 of the existing IAS 1. According to the wording of section 7 of ED IAS, no. 1, some uncertainty might exist as to where to present the disclosures listed in items 110-115, as section 7 seems to discuss the same issues. In our opinion, the introduction of the important, new information discussed in questions 5 and 6 of ED IAS calls for a new decision as to whether the management's review should still be outside IFRS's scope. Given the experience gained in Denmark with regard to the management's review being an integral part of the Annual Report, we recommend that IAS should make an effort to make progress in the MDA project.
Other comments **Responsibility of the financial statements** **Presentation of proposed dividends for the financial year**	 We find it essential that the provision in section 6 of IAS 1 that "the board of directors and/or the governing body of the enterprise is responsible for the presentation of financial statements should still be part of IAS 1. We further recommend that a provision be added to the effect that the management submits an actual statement reflecting that the management has presented the financial statements, that the Annual Report has been presented in accordance with IFRS, and that the Annual Report gives a true and fair view. The possibility of presenting proposed dividends for the year as a separate portion of equity is no longer mentioned as a possibility

	(the present standard section 74 (c). Section 116 (a) of ED 1 requires note disclosure of the amount. It is unclear whether a separate presentation within equity would still be allowed. In our opinion, abolishing this possibility is no improvement, and we recommend that the possibility should be maintained. An assessment of the composition of equity, including the portion proposed for dividends, seems more appropriate than a note disclosure.
Scope of international financial reporting standards: consolidated financial statements vs. parent company financial statements	In the present standard the issue of presentation of consolidated financial statements vs. parent company financial statements in accordance with IFRS is addressed in section 2 saying that presentation of the parent company financial statements under other requirements – i.e. national – would not preclude the consolidated financial statements from being prepared under IFRS. We find that the exclusion of this statement could be interpreted so that financial statements could only be IFRS financial if both the consolidated and the parent company financial statements are prepared under IFRS.
Definitions of certain elements of financial statements	The term "separate financial statements" is used in IAS 27, 28 and 31. However, it is not defined. This implies uncertainty with respect to what measurements rules apply in which accounts, cf. our comments to IAS 27. The term should be defined in IAS 1. The term "historical summaries" is introduced in the Exposure draft ED 1 First-time application of international financial reporting standards, and certain requirements apply to it. The term should be defined in IAS 1.

IAS 2 Inventories	
Do you agree with eliminating the allowed alternative of using the LIFO method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?	**Yes, we agree**
IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist. IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognized in profit or loss. *Do you agree with retaining those requirements?*	**Yes, we agree**
Other comments **Disclosure if replacement value exceeds cost**:	The 4th directive requires disclosure of the difference between the actual market price and the cost price if the actual market price exceeds the cost price materially. It could be considered to include this requirement in the revised standard.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	
Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?	***Voluntary changes in accounting policies*** **Yes, we agree** with the proposed improvement requiring use of the previous benchmark treatment. The cumulative effect of the accounting change or error is not an indicator of the performance in the current period. Rather, it is an adjustment of performance in one or more prior periods, and should be reported as such. We recommend the standard make it clearer that voluntary changes in accounting policy should be made rarely and then only for good reasons to ensure consistency. ***Correction of errors*** The proposal to eliminate the distinction between fundamental errors and other material errors (as mentioned in question 2) leave us with some concern. If correction of errors be accounted for retrospectively, we have some concern that it may tempt management of entities having difficulty in meeting current market expectations of earnings to search for any errors which can be taken back to prior years and thereby assist comparative performance. In the extreme situation, expenses may be deliberately omitted from the current year statements in the knowledge that next year the 'error' will be adjusted retrospectively so that the cost never hits current earnings per share
Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?	It may be conceptually sound that all errors be accounted for in the same way to avoid any possible 'accounting arbitrage' between fundamental errors and other material errors. However, we also believe that the original distinction between the two types of errors had some merits as a safeguard against all errors resulting in debits going to equity (refer to our comment above).

Other comments	
Consideration of other standards in the absence of a particular IFRS standard or interpretation	We disagree with section 8.6 (c) requiring consideration of "pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices, to the extent, but only to the extent, that these are consistent with (a) and (b) of this paragraph". We believe it should not be a requirement. If it remains a requirement, we find it unclear whether the wording requires an entity and its auditors to study all US GAAP literature (including EITFs) or interpretations (even of IAS) issued in other countries before concluding on an IAS treatment. We therefore object to making section 8.6 (c) a requirement and suggest it be a non-mandatory guidance.
Disclosure of the effect of new standards not yet come into effect	With the expected complexity of certain new standards that may come into effect in future years (Business Combinations, impairment test rather than amortization of goodwill and Share-based payment) we find that the requirement in section 19 to disclose information about the effects of a future change of accounting policy as a result of publication of a new standard not yet to be implemented remain an encouragement not a requirement. Otherwise, companies would have to assess the impact of a new standard within too short a timescale to produce reliable information about the effects or resort to the "undue cost or effort" concept.

IAS 10 Events After the Balance Sheet Date	
Other Comments: **Presentation of proposed dividend for the year**	We propose that the guidance on presentation either in the notes or as a separate component of equity is maintained, cf. our comments to IAS 1.

IAS 16 Property, Plant and Equipment	
Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?	**We do not agree** with the proposed change. In our opinion the distinction between whether a non-monetary transaction is an exchange of dissimilar assets, which in effect constitutes a sale, or an exchange of similar productive assets, which in effect constitutes a swap of assets, should be retained. We agree that it is difficult to set-up objective criteria for classification of exchange transactions as either exchange of similar or dissimilar assets, but suggest that the judgment is made based on the use and the values of the assets as is the case according to US GAAP (EITF 98-3). We suggest that the accounting for exchange of assets shall be considered as part of the revision of IAS 18, Revenue Recognition Project. In relation to this project, criteria for when an earning process is considered complete should be decided upon. Until that time, we suggest that no changes should be made to the existing paragraphs 21 and 22.
Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.) *(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognizing revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)*	***No, we do not support the proposed change*** for the reasons explained in Q1. The accounting for exchanges of tangible and intangible assets should be the same.
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)?	***Yes, we agree*** that depreciation should not cease when an asset is retired from active use. However, the depreciation method and/or the useful lifetime for the asset may change due to the retirement from active use. Furthermore, impairment shall still be considered.

Other comments	
Subsequent Expenditures	Paragraph 23 in the draft revised IFRS 16 standard suggests that the definition of "Subsequent Expenditures" shall be changed as follows: *"in excess of the originally assessed standard of performance of the existing asset" to* "in excess of its standard of performance assessed immediately before the expenditure was made". As a result of the changed wording, larger ordinary repairs may now be regarded as an improvement giving the opportunity to increase the carrying amount. We suggest that the present criteria for definition of "Subsequent Expenditures" is maintained or alternatively changed to "*in excess of its standard of performance assessed at its acquisition*".
Residual values	Section 46 in the draft revised IFRS 16 standard suggests that the residual values for all assets are reviewed at each balance sheet date and that any changes are reflected in the financial statements. The estimate shall be based on the amount recoverable from the disposal at the date of estimate of similar assets that have reached the end of their useful lives and have operated under conditions similar to those on which the asset will be used. This reassessment shall cover all assets, where the residual values are not insignificant. We consider such requirement to be burdensome, as residual values are likely to fluctuate according to current economic conditions. We suggest that the criteria for reassessment of residual values should be the same as for consideration of impairment i.e. an enterprise should at each balance sheet date assess whether there is any indication that the residual value of an asset may have changed. If any such indication exists, the enterprise should reassess the residual value of the asset. Only in case of a revaluation there seems to be a theoretical justification for increasing the residual value.

Fixed Assets Disclosure	Section 60 in the draft revised IFRS 16 standard requires disclosure of comparative information regarding the reconciliation of carrying amounts at the beginning and the end of the period. Such additional information will make the presentation more extensive, and we do not find that such additional information will be of benefit to the users of financial statements.

IAS 17 Leases	
Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.	***Yes, we agree*** that land and buildings should be separated if such a separation can be made satisfactorily We find that the explanatory text in paragraphs 11A-11C of IAS 17 is an improvement with respect to better understanding and convergence. We do not see the new paragraphs as a new concept, but merely as clarification of the existing text in paragraph 11 of IAS 17. However, we find that the issue of multi-element contracts should have been addressed more broadly.
Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalized and allocated over the lease term? *Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalized in this way and that they should include those internal costs that are incremental and directly attributable?*	The capitalisation and allocation of initial costs, that are incremental and directly attributable to the lease transaction, are in accordance with the conditions in paragraph 19 of IAS 18 and support the matching of revenues and expenses. We support this proposed change. **Yes**. Inclusion of indirect costs would ensure inconsistency with other standards in the area of transaction costs, for example IAS 22 and IAS 39. In addition to the above we suggest a consistent accounting treatment of initial costs incurred by manufacturers and dealers cf. section 34. When a lease is negotiated and arranged, the initial costs, that are incremental and directly attributable to the lease, are essential to acquire that lease and would not have been incurred had that leasing transaction not occurred; therefore these initial costs are not different for lessors who are manufacturers and dealers and lessors who are not. In practice, the sales/dealer activities and the leasing activities would usually be considered different business areas, and there seems to be no justification for treating enterprises that "by incidence" have both activities different from those who have only the leasing activities. For reasons of comparability we therefore support that the initial costs should be accounted for in the financial statements of lessors in the same way for all finance leases.

IAS 21, The Effects of Changes in Foreign Exchange Rates	
Do you agree with the proposed definition of functional currency as 'the currency of the primary economic environment in which the entity operates' and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?	**Yes, we agree.**
Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?	**Yes, we agree.**
Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?	**Yes, we agree.**
Do you agree that the allowed alternative to capitalize certain exchange differences in paragraph 21 of IAS 21 should be removed?	**Yes, we agree.**
Do you agree that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?	**Yes, we agree.**
Other comments **Measurement currency vs. functional currency**	 We find that the general understanding is that there is a fundamental difference between the **functional currency** (as defined in paragraph 6) and the **measurement currency** meaning the currency in which the basic bookkeeping is done. We therefore recommend that both terms are still used to have a clear understanding and argumentation. Also, we see a practical problem in paragraph 19 as (most likely) many countries – including Denmark – formally or in reality have legal requirements as to use the local currency as measurement currency (registration in the bookkeeping) regardless of the functional

	currency. By not accepting the locally required measurement currency the companies will need a dual bookkeeping system to comply with IAS.

IAS 24 Related parties	
Q1. Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)? *'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.*	**No, we do not agree.** We think that present as well as potential shareholders have the right to be informed of top management's remuneration (e.g. those managers for whom remuneration is determined by a remuneration committee of the Board, by the Board or by the Annual General Assembly). 'Management' in this context should at least include the Board of Directors in a one-tier system, or the Board of Management in a two-tier system. Compensation comprises salaries, bonuses, and the value of share options, together with other parts of the benefits package (including pension benefits, free housing, etc) even if not exactly quantifiable.
Q2. 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?	**No, we do not agree**. We believe that this information will often be essential to understand the financial position and performance of an entity and should therefore be required for separate financial statements. We recommend a requirement to disclose the intra group amounts included in the balance sheets and income statements. We support the arguments of the six Board members who disagree with the new paragraph 3 as stated in the Appendix B (B4.-B6.). However, if the exemption is included in the revised IAS 24, we propose that the wording "the separate financial statements…..or a wholly-owned subsidiary that are made available or published with consolidated financial statements of the group" be reconsidered. Financial statements of subsidiaries would normally not be made available or published with consolidated financial statements of the group. We therefore propose that this condition only refers to the financial statements of the parent company.

Other comments	
Disclosure of related parties where control exists	Section 12 uses the term “parents and subsidiaries” which seen together with the definition of “parent” in IAS 22, section 8 and IAS 27, section 6, could lead to the conclusion that relationships where control exists should be disclosed only where the controlling party is a “parent company”, and not e.g. a person. This seems to be a difference from the existing IAS 24 which states that “Related party relationships where control exists should be disclosed irrespective of ….”. It is unclear if this apparent change from the existing IAS 24 is intentional, as it is not mentioned in the “Summary of Main Changes”. If it is not intentional, we suggest it be clarified in the definition, e.g. by using the requirement from the existing IAS 24: “Related party relationships where control exists should be disclosed irrespective of ….” instead of the proposed wording of the amended paragraph 12. If the change is intentional, we do not support the change, as we believe that the control-relation is equally important if the controlling party is a person, a foundation or the like. In any case, we suggest that the term “parent” be defined, at least with a footnote reference to IAS 22 and IAS 27.

IAS 27 Consolidated and Separate Financial Statements	
Q1: Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?	**Yes, we agree** that intermediate parents should be exempted from preparing consolidated financial statements if certain criteria are met. However, we assume that criterion (d) should be worded in a manner which will also exempt situations where the consolidated financial statements are prepared by an intermediate parent to the group and not only the immediate parent or the ultimate parent.
Q2: Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity?	**Basically, we agree** that a minority interest is not a liability of the group and thus it should not be presented as a liability. However, it seems that application of the requirement in IAS 32.17 could lead to classification of instruments which are equity from a subsidiaries view, but liabilities from a group view (if for example a guarantee has been set up by another group company) as equity in the consolidated financial statements. If the change is made in the final standard, it should be underlined that the minority share of profit/loss is not an expense in the P/L account, but rather presentation of the income distribution, cf. section 26, the last sentence. Further the wording of section 76 of the draft IAS 1 should be amended, as the present wording implies that the minority share of profit/loss is actually an expense.
Q3: Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionally consolidated or accounted for under the equity method in the consolidated financial statements should either be carried at cost or accounted for in accordance with IAS 39 … in the investor's separate financial statements?	**Basically, we agree** that the equity-method adds no relevant information to the financial statements, if consolidated financial statements are prepared. On the other hand, financial statements of parents companies are generally regarded as less important than the consolidated financial statements. Therefore, the option in the present standards is in our view quite harmless. Furthermore, use of the equity-method is a well established practice in many countries. And finally, there would still be two alternative treatments left in the standard. For theses reasons, we disagree to remove the option at present. We see no justification for having rules for the treatment of associates in the financial statements of the parent company and no rules for the treatment of joint ventures, cf. IAS 31. Especially the wording of section 38 of IAS 31

	seems to be contradictive to the specific requirements in IAS 28.
Other comments	
Definition of the term separate financial statements	We find that the definition of separate financial statements in section 4 is not very clear. It should be explicitly stated that for groups it is the parent company accounts. For enterprises without subsidiaries it is unclear what is meant by the term. Normally there would only be one set of financial statements and this becomes confusing with respect to the requirements for separate financial statements under IAS 28.
Requirement of disclose a listing of subsidiaries	We cannot see any reason for eliminating the requirement in the present standard to disclose an appropriate listing of subsidiaries. In our view, the information is very useful for users of financial statements. If the intention has been to require this disclosure in the draft IAS 24, section 12, this fact should be clearly stated in IAS 24, among this a requirement to disclose the percentage of ownership/voting power held.
Disclosure of reporting dates of subsidiaries different from that of the group	On the other hand the proposed disclosure requirement in 32(e) regarding different balance sheet dates seems to be merely a technical disclosure, as section 19 says that adjustments must be made if the balance sheet dates are different. We therefore suggest that this requirement is deleted.

IAS 28 Accounting for Investments in Associates	
Q1: Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments, when such measurement is well-established practice in such industries?	**Yes, we agree.** However we find it necessary to define more clearly the types of enterprises and what constitutes "well established practice". It may be theoretically difficult to justify that interests in associates of such enterprises should be treated differently from interests in subsidiaries. However, we agree with the choice made, as an investment in a subsidiary made by such enterprises will usually have a different objective than an investment in an enterprise without obtaining control. In case an investment in an associate becomes an investment in a subsidiary, we recommend that the treatment is addressed in the revised standard.
Q2: Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables?	**No, we do not agree**. We find that the general impairment rules in IAS 39 would lead to the correct write down of such a receivable depending on whether it is for example subordinated. Further we find it difficult to decide on an objective basis whether the loan in fact forms part of the investment.
Other comments **Disclosure of a listing of associates**	 We cannot see any reason for eliminating the requirement in the present standard to disclose an appropriate listing of associates. In our view, the information is very useful for user of financial statements. If the intention has been to require this disclosure in the draft IAS 24, the wording of the draft IAS 24 should be changed to reflect that fact.

IAS 33, Earnings Per Share	
Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a reputable presumption that the contracts will be settled in shares?	**Yes, we agree.**
Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)? – *The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).* – *The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.* – *Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).*	**No, we do not agree.** We find that there is a risk that in certain cases the conversion of potential ordinary shares to ordinary shares would be anti-dilutive within an interim period, but not necessarily within a full year. Using the approach as illustrated in Appendix B would then lead to such anti-dilutive conversions be excluded from the diluted earnings per share calculation for the period and thereby also from the calculation of diluted EPS for the year even though no anti-dilution would exist for the year as a whole. We find that the diluted earnings per share number should be based on a year-to-date weighted average of the number of potential ordinary shares weigthed for the period they were outstanding without regard for the diluted EPS information reported for interim periods during a year. In our opinion, diluted EPS information to be reported for an interim period should be the difference between the year-to-date diluted EPS figure at the end of a period and the year-to-date figure at the beginning of a period, rather than based on a calculation that is solely based on figures for the interim period. We find that such an approach is in compliance with the approach for preparing interim financial statements as described in IAS 34. See IAS 34.28.

IAS 40, Investment Property	
Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that: *(a) the rest of the definition of investment property is met; and* *(b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?*	We do not find that property held under an operating lease meets the definition of an investment property when property held under operating leases is measured at fair value. On the other hand, we can support that such operating lease contracts are treated as investment properties at fair value. However, what is to be considered fair value in this situation? Is it fair value of the contract or the property?
Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?	**We agree** that the exception is a practical way of addressing the situation where substantially all of the risks and benefits of use of a leased property are with the lessee and the leased property otherwise would qualify as an investment property. We agree with the proposal despite that this could (presumably) result in the same leased asset being recorded on the balance sheets of both the lessor (by following operating lease accounting rules under IAS 17.41) and the lessee (by following finance lease accounting rules under IAS 17.12).
Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?	**We agree** with the IASB's view that IAS 40 has not been in use long enough to encourage widespread development and reliable fair values of investment properties on a regular basis. At present the situation for tangible fixed assets in many jurisdictions probably merits the IASB's proposed position, and presumably an entity holding an investment property is able to determine fair value information.