Stichting voor de Jaarverslaggeving

Raad voor de Jaarverslaggeving

(voortzetting van het Tripartiete Overleg - TO)

Opgericht 18 september 1981 door:
Verbond van Nederlandse Ondernemingen
Nederlands Christelijk Werkgeversverbond
Christelijk Nationaal Vakverbond
Federatie Nederlandse Vakbeweging
Koninklijk Nederlands Instituut van
Registeraccountants met medewerking van
de Sociaal-Economische Raad

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Date : Amsterdam, 16 September 2002
Re : Exposure Draft of Proposed Improvements to International Accounting Standards

Dear Sirs,

On behalf of the Dutch Council for Annual Reporting ("CAR") I would like to respond to your invitation to comment the above exposure draft.
In our comments we make explicit reference to the comments submitted by EFRAG in their letter dated 12 September 2002. We indicate whether we agree or disagree with the comments made by EFRAG, and we make additional comments when we consider that necessary or useful.

<u>IAS 1 Presentation of Financial Statements</u>

Question 1
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)?

Answer
No, we do not agree. We support the comments made by EFRAG.

Question 2
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)?

Answer
No, we do not agree. We support the comments made by EFRAG.

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Question 3

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 authorised for issue (see proposed paragraph 60)?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 4(a)

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 authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 4(b)

Do you agree that:

(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 noncurrent 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 authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?*

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 5

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 recognised in the financial statements (see proposed paragraphs 108 and 109)?

Answer

Yes, in general we do agree, but fully support the remarks made by EFRAG.

Question 6

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)?

Answer

Yes, in general we do agree, but fully support the remarks made by EFRAG.

Other comments

We support the other comments made by EFRAG.

IAS 2 Inventories

Question 1

Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 2

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 (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31).

Do you agree with retaining those requirements?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Other comments

We support the other comments made by EFRAG.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Question 1

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)?

Answer

i) Voluntary changes in accounting policies.

Yes, we do agree. We support the comments made by EFRAG.

ii) Correction of errors.

Yes, we do agree. We do *not* support the comments made by EFRAG.

Question 2

Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Answer

Yes, we do agree. We do *not* support the comments made by EFRAG.

Other comments

We support the other comments made by EFRAG.

IAS 10 Events After the Balance Sheet Date

Response

We support the proposed changes, but have one additional comment.

We recommend to specifically address the following matter in the Standard. If an obligation exists (based on the articles of association or other similar local requirements) to distribute preferred dividend in case of sufficient profit as at balance sheet date, the preferred dividend to be distributed should be included as a liability in the balance sheet.

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IAS 15 Information Reflecting the Effects of Changing Prices

Response

We support the withdrawal of IAS 15.

IAS 16 Property, Plant and Equipment

Question 1
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)?

Answer
Within CAR, we do not have definitive views on the answer to this question.

Question 2
*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 recognising 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.)

Answer
Within CAR, we do not have definitive views on the answer to this question.

Question 3
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)?

Answer
Yes, in general we do agree, but fully support the remarks made by EFRAG.

Furthermore, we propose that the standard clarifies that, if depreciation of an asset is based on its estimated physical use (like the number of kilometres of a truck), the fact that the asset is temporarily idle does not necessarily mean that depreciation should continue.

Other comments
We support the other comments made by EFRAG.

IAS 17 Leases

Question 1
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.

Answer
Yes, we do agree. We support the comments made by EFRAG.

Question 2
Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term?
Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

Answer
Yes, we do agree. We support the comments made by EFRAG.

Other comments

We recommend to rephrase the definition of initial direct costs included in paragraph 3, as it could cause confusion, especially regarding entities that have combined lease activities and selling activities. The definition should more clearly state for which entities it is applicable.

IAS 21 The Effects of Changes in Foreign Exchange Rates

Question 1
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?

Answer
Yes, we do agree. We support the comments made by EFRAG.

Question 2

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?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 3

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)?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 4

Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 5

Do you agree that
(a) goodwill and
(b) 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)?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Other comments

We support the other comments made by EFRAG.

<u>IAS 24 Related Party Disclosures</u>

Question 1

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'.

Answer
No, we do not agree. We support the comments made by EFRAG.

Question 2
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)?
(Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B.)

Answer
No, we do not agree. We support the comments made by EFRAG. However, we have no problem with allowing an exemption for parent company only financial statements provided that its consolidated financial statements are authorised for issue in the same document.

Other comments
We support the other comments made by EFRAG.

<u>IAS 27 Consolidated and Separate Financial Statements</u>

Question 1
Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

Answer
Yes, in general we do agree, but fully support the remarks made by EFRAG.

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

Answer
Yes, we do agree. We support the comments made by EFRAG.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Answer
No, we do not agree. We support the comments made by EFRAG, but add to those comments that we strongly favour the equity method above the cost method and the methods of IAS 39.

Other comments
We support the other comments made by EFRAG.

<u>IAS 28 Accounting for Investments in Associates</u>

Question 1
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: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

Answer
Yes, we do agree. We support the comments made by EFRAG. We consider a workable definition of venture capital organisations as extremely important, especially if the exemption is extended for investments that would otherwise qualify as subsidiaries requiring consolidation. Furthermore, the fair value measurement should be reliable, which might not always be the case in the context of investments of venture capital organisations.

Question 2
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 (paragraph 22)?

Answer
No, we do not agree. We support the comments made by EFRAG.

Other comments

We support the other comments made by EFRAG.

We further recommend to clarify that for venture capital type *activities* of other entities (such as banks and insurance companies) the same accounting is applicable as for venture capital organizations.

IAS 33 Earnings Per Share

Question 1
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 rebuttable presumption that the contracts will be settled in shares?

Answer
Yes, we do agree. We support the comments made by EFRAG.

Question 2(i)
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)?
(a) 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 (i.e. without regard for the diluted earnings per share information reported during the interim periods).

Answer
No, we do not agree. We support the comments made by EFRAG.

Question 2(ii)

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)?

(b) 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.

Answer

No, we do not agree. We support the comments made by EFRAG.

Question 2(iii)

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)?

(c) 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 contingentshare agreement, if later).

Answer

No, we do not agree. We support the comments made by EFRAG.

Other comments

We support the comments made by EFRAG.

Furthermore, to avoid confusion, we recommend to include both the appendices A and B into the Standard or identifying both of them as not being part of the Standard.

<u>IAS 40 Investment Property</u>

Question 1

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?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 2

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?

Answer

Yes, we do agree. We support the comments made by EFRAG.

Question 3

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?

Answer

Yes, we do agree. We support the comments made by EFRAG.

If you have any questions in relation to this letter, please do not hesitate to contact us.

With kind regards,
Raad voor de Jaarverslaggeving,

b/a A. de ...

Martin Hoogendoorn,
Chairman