Submission on IASB Exposure Draft:
Improvements to International Accounting Standards

by

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Introductory Comments

This submission is structured as follows:

- General comments about poor drafting practices
- Comments on individual accounting standards – response to questions and other responses

Deficiencies in drafting

Several aspects of the drafting style are inappropriate for accounting standards that, ultimately, will have force of law as IAS/IFRS standards will have in the European Union and Australia. To the extent possible the drafting style used should facilitate rather than frustrate the enforceability of the standards in those jurisdictions where compliance is required by law.

Inappropriate interpretation provisions

The inclusion of provisions such as the follow are both inappropriate and unacceptable:

> "The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this standard, and in the context of the preface to International Accounting Standards …"

In Australia, such a statement is inconsistent with the provisions of the *Acts Interpretation Act 1901* and would, if included in an Accounting Standard made by the Australian Accounting Standards Board, be ineffective. It also suggests that those responsible for drafting the particular provisions are so lazy and incompetent that they are incapable of expressing the requirements of a standard fully and clearly. Such an incompetent drafting style can only be described as being disrespectful to those who are required to apply the standards.

Misuse of "when, and only when" and "if, and only if"

A number of the proposed changes include the use of the terms "if, and only if" and "when, and only when", in the mistaken belief that the use of such words prohibits the doing of something in any other circumstances. For example, "If, and only if X, then Y shall be done" as both a matter of logic and the correct application of the rule of grammar says nothing about "not-X". Such a form of words is inherently incapable of saying anything about what happens in the case of "not-X". Indeed, it suggests that in the case of "not-X" an entity has a choice whether or not to do Y. What I expect is in fact intended is the following:

1 Y shall not be done except when explicitly required by paragraph 2.

2 If, and only if X, then Y shall be done.

It is arguable, that the words such as “and only if” are in those circumstances redundant.

The use of “shall” rather than “should”

At least in Australia, the substitution of “shall” for “should” is not interpreted by the courts as removing a discretion to comply – the only sure way to make a requirement mandatory rather than suggesting a moral or professional obligation to comply is to use the word “must” which, unlike “should” and “shall”, is unambiguous.

International Accounting Standard IAS 1
Presentation of Financial Statements
Invitation to Comment

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)?

The main problem with allowing a departure from IFRSs is that comparability between entities is substantially reduced. While the disclosures in paragraphs 13 to 15 go some way to mitigating the impact on comparability, the process is not transparent. If the primary information can be restated in the financial statements, an additional column should added showing the amounts that would be shown if there had been no departure.

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)?

The abolition of this categorisation is supported. There are incentives for revenues to be classed as non-extraordinary and expenses as extraordinary. The resulting misuse has resulted in the both the term and practice becoming disreputable. As a mater of practice, it reduces the usefulness of the financial report to users rather than enhancing its usefulness.

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)?

Since the financial report depicts the position at reporting date, and the subsequent agreement dose NOT reflect the position at reporting date, the amount must be classified as current. I note that paragraph 60 is not a standard, and that as it goes beyond what is stated in paragraph 57 – if the proposal is accepted, it must be presented as a standard rather than implementation guidance. The use of expression "long term asset" rather than the term "non-current asset" is inconsistent with the general principles established in IAS 1. (The term "non-current" is used in question 4 below.)

Question 4 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)?

Since the financial report depicts the position at reporting date, and the subsequent agreement dose NOT reflect the position at reporting date, the amount must be classified as current.

I note that paragraph 62 is not a standard, and that as it goes beyond what is stated in paragraph 57 – if the proposal is accepted, it must be presented as a standard rather than implementation guidance.

(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 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)?

Since the financial report depicts the position at reporting date, and the period of grace is established at that date, the correct test is when the period of grace expires NOT the time at which the amount would be payable had the entity not been in breach of the requirement.

I note that paragraph 63 and 64 go stated in paragraph 57 – if the proposal is accepted, it must be presented as a standard rather than implementation guidance.

Question 5 Do you agree that an entity should disclose the judgements 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)?

Yes, I agree.

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)?

Yes, I agree.

Other Comments

The titles of the Income Statement and Balance Sheet are inappropriate given what IAS 1 requires of them. A more accurate titles would be “Financial Performance Statement” and “Financial Position Statement”.

The use of Income Statement is misleading, since it also includes requirement relating to expenses.

Paragraph 6

This provision is very messy. It fails to properly distinguish between the whole document and the components of that document. In Australia this done very effectively by using two terms, the “financial report” and the “financial statements”. These terms are defined in the *Corporations Act 2001* as follows:

295 Contents of annual financial report

Basic contents

(1) The financial report for a financial year consists of:

(a) the financial statements for the year; and

(b) the notes to the financial statements; and

(c) the directors' declaration about the statements and notes.

Financial statements

(2) The financial statements for the year are:
(a) a profit and loss statement for the year; and
(b) a balance sheet as at the end of the year; and
(c) a statement of cash flows for the year; and
(d) if required by the accounting standards—a consolidated profit and loss statement, balance sheet and statement of cash flows.

Notes to financial statements

(3) The notes to the financial statements are:
(a) disclosures required by the regulations; and
(b) notes required by the accounting standards; and
(c) any other information necessary to give a true and fair view (see section 297).

Directors' declaration

(4) The directors' declaration is a declaration by the directors:
……

(5) The declaration must:
…

By clearly distinguishing between the individual financial statements and any additional disclosures made in respect of them (made in the notes to the financial statements) it is easier to indicate what must appear in the statement itself (no need to use convoluted terms like "on the face of the statement of financial performance"). I note that paragraphs 97 to 117 assume that such a distinction is made by treating the notes to the financial statements as a separate component of the report.

I suggest that in the first line of paragraph 6 that the words "includes the following components" with "comprises".

Paragraph 10

I strongly support the first sentence. However, the second sentence is NOT a standard – it is the rationale for the requirement in the first sentence, and thus forms part of the basis for conclusions.

Paragraph 18

Associating an entity not being a going concern with an intention to liquidate, cease trading (operating surely?), or having no realistic alternative other than to do so, excludes many entities that would not be "going concerns". For example, in the United States, an entity under Chapter 11 is not being liquidated, but none the less may not be a going concern. This provision needs to be revised to apply a more appropriate test.

Paragraph 22

I suggest replacing "period" with "reporting period" as this is what is, in fact, being referred to.

Paragraphs 22(a) and 23

It should be made clear that in applying paragraph 22(a) the test is whether the revised presentation results in users being better informed. That is, the change must be dictated by a desire to better meet the needs of users rather than a desire to portray the information in a manner more "acceptable" to management.

Paragraphs 28 and 29

The difference in the drafting of these two standards is inexplicable. The approach taken in paragraph the logical one. However, to avoid the possibility of inconsistent application of the requirements the word "required" must be replaced by "expressly required", otherwise some people may take the view that even though there is no express requirement to offset, the words used in the standard (and the implementation guidance and basis for conclusion) can be used to infer a requitement to offset. Given that the prohibition is a fundamental principle, non-compliance should only be possible when an Accounting standard expressly requires a departure. In addition, such a practice is disrespectful to users and suggests that the Board and its staff are so lacking in skill and professionalism that they are incapable of expressing themselves clearly and unambiguously when drafting the requirements of an Accounting Standard. If they posses such skills and professionalism, then need to allow for the possibility of the requirement being inferred rather than express would not arise, and drafting of standards in a way that would allow such an interpretation would be unnecessary.

Paragraph 19 must be redrafted as follows:

> Items of income and expense must not be offset except when anAccounting standard expressly requires or expressly permits offset.

The use of the term “income” rather than revenue here is problematic since it is defined in the Framework as being the aggregate of “revenues” and “gains”. By their nature gains involve the setoff of a revenue and an expense (see paragraph 76). Accordingly, the use of “income” is inappropriate.

Paragraph 33

To avoid possible inconsistent application, replace “permits or requires” with “expressly permits or expressly requires”.

Paragraph 47

By definition the balance sheet date changes for each reporting period – this is because the year changes. What is required is disclosure if the length of the reporting period differs from the length of prior reporting period for which comparative information is provided.

Since the date is the date for all the financial statements, the term “reporting date” should be used rather than “balance sheet date” or “balance date”. The terms used are an anachronism and are also potentially misleading.

Paragraph 49

The use of the wrods “current and non-current assets” is sloppy and is potentially misleading. What is in fact intend is “current assets and non-current assets” which is a very different thing. Such a misuse of the English language is inexcusable. The use of the clumsy expression “on the face of the balance sheet” would be avoided if the distinction between the financial statements and the notes to the financial statement suggested above is adopted.

Paragraph 49

It is not immediately clear what significance attaches to the term “line item” – it is not included in the Glossary. Given its importance in the application of IAS/IFRS it must be defined.

Paragraph 65

See my earlier comment on the use of “on the face of” and “line items”.

Paragraph 73

For the reasons previously given, replace “requires or permits” with “expressly requires or expressly permits”.

Paragraph 78

Abundant caution suggests that “present” must be replaced by “present or describe”

Paragraph 90

The use of “dividends recognised” is ambiguous, it could mean distributions to owners or revenue. In the context it should be “dividend distributions”.

Paragraph 90

The term “significant accounting policies” is not defined. To be meaningful, a test for determining whether or not a particular accounting policy is significant must be provided.

International Accounting Standard IAS 2

Inventories

Invitation to Comment

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?

Yes, I agree as its retention allow the manipulation of the depiction of financial performance and financial position.

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?

Yes I agree. Since this is merely an instance of impairment, the consequences must be the same as for any other impairment.

Other Comments

Paragraph 1(c)

An exception based on “accepted practice” is very strange. The test must be what measure provides the most useful information to users of the financial report, not what preparers in fact provide.

Paragraph 4

The use of the term “net realisable value” in inappropriate – it is an amount determined using a particular measurement technique, not a value. The use of the emotive term value has the potential to mislead those using the financial report.

Paragraph 5

The definition of "cost" in IAS 16 should be included.

Paragraph 21A

This is not a standard, it is implementation guidance.

Paragraph 31

This paragraph is confusing for the reasons given below. The heading immediately before this paragraph should be replaced with "expense recognition". Also, rather than refereeing to "write-down" the generic term of impairment should be used.

Paragraph 31 deals with three different expenses, the recognition of which must be clearly distinguished:

- the derecognition of inventory that has been sold or used by the entity;
- the recognition that inventory is impaired (carrying amount is greater than net realisable amount); and
- the recognition that inventory has been lost or stolen.

Their different nature requires that they must not be aggregated as doing so is likely to mislead users of the financial report.

International Accounting Standard IAS 8

Accounting Policies, Changes in Accounting Estimates and Errors

Invitation to Comment

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)?

It is my view that the alternative treatment is the proper treatment, accordingly I do not support the approach taken in those paragraphs. The impact should be reflected in the revenues and expenses included in the determination of net profit for the reporting period.

If this defective proposal is adopted, then additional columns must be added to the financial report showing the amounts that were presented under the prior accounting policy or with the with the errors uncorrected. While there is some argument to support the treatment in the case of errors, there is no such argument when the change is voluntary.

In the case of errors, the treatment permits management to manipulate financial results by artificially creating and subsequently correcting errors. Such a position cannot be tolerated. It is no different from the financial reporting abuses by Enron and WorldCom – if the Board proceeds with this proposal it can only result in financial reporting falling into greater disrepute.

Question 2 Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

Yes, I agree with the proposal.

Other Comments

Paragraph 3

There is no definition of "accounting estimate" – an appropriate definition must be included.

The definition of "errors" is defective. I suggests the introductory words be replaced with the following:

> <u>Errors</u> are omission from, or misstatements of, information contained in the entity's financial report for one or more prior reporting periods …

Paragraphs 4 to 6

The requirements of these standards are misconceived. Accounting policies are determined by the standards in IFRSs (this relates primarily to paragraph 4). The other material is merely directed to how the policy is applied in particular circumstances. Paragraph 6 is not a standard, it is solely concerned with implementation issues and should be presented as implementation guidance.

In paragraph 4, it is unclear how prudence relates to reliability – information is either reliable or not reliable.

Paragraph 7

In the first sentence, clarity requires replacing "specifically requires or permits" with "specifically requires or specifically permits" – otherwise it could be argued that something could be permitted by inference rather than express words. Consistency suggests that in the second sentence "requires or permits" must be "specifically requires or specifically permits".

Paragraph 9

The drafting of this paragraph is defective. It indicates when a change must be made but does not unambiguously prohibit changes in other circumstances. I suggest the following solution:

> 9 A change in accounting policy must not be made unless the change is required by paragraph 9A.
>
> 9a A change in accounting policy must made only if it …..

Paragraph 15

The drafting of this paragraph is defective. I believe that the intention is as follows:

> 15 When applying the transitional provisions in a Standard has an effect on the information presented for the current reporting period or the information presented for a prior reporting period included in the financial report, the following must be disclosed: ….

International Accounting Standard IAS 10

Events after the Balance Sheet Date

Invitation to Comment

Other Comments

The title of the standard is both awkward and misleading. A more accurate title would be “Event Occurring After Reporting Date”.

International Accounting Standard IAS 16

Property, Plant and Equipment

Invitation to Comment

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)?

Yes, I agree. If fair value cannot be reliably measured, one could question whether it is appropriate to recognise an asset.

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.)

Yes, I agree. If fair value cannot be reliably measured, one could question whether it is appropriate to recognise an asset.

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)?

Yes I agree. The situations identified do not as a matter of logic mean that the future economic benefits comprising the asset will not decrease, thus depreciation must continue to be recognised.

Other Comments

Paragraph 1

For the reasons presented previously, the words “requires or permits” must be replaced with the words “expressly requires or expressly permits”. The current imprecision is unacceptable as it produces the risk of a lack of comparability.

Paragraph 6

Cost

It is not clear from the definition of “cost” if consideration includes the undertaking of an obligation. I note that in the Australian standard, AASB 1015, uses the following definitions:

> ***cost of acquisition*** **means the** ***purchase consideration*** **plus any incidental costs directly attributable to the** ***acquisition***

> ***purchase consideration*** **means the** ***fair value*** **as at the** ***acquisition date*** **of assets given,** ***equity instruments*** **issued, or liabilities undertaken by the acquiring entity**

It seems to me that rules for determining cost are the same for all assets, accordingly, it would be best if this question were addressed in an Accounting Standard devoted to that issue.

Residual value

The use of “value” should be avoided whenever possible as it is a value laden term. It is preferable to use the neutral term “amount”.

Impairment loss

The generic term expense should be used rather than loss. While the term loss could be justified if we had a net amount of a revenue and an expense, with impairments this is not the case. The use of the term “loss” in this context is potentially misleading and deceptive.

Paragraph 7

This paragraph is a mess. Before the proposed amendments, it apparently only applied to initial recognition, however, it now appears to also apply to the annual determination of whether the asset should continue to be recognised. I suggest that the following wording solves the problem.

7 An item of property, plant or equipment must not be recognised or continue to be recognised other than when paragraph 7A or 7B applies.

7A An item of property, plant or equipment must be recognised when and, only when:

(a) it is probable …; and

(b) the cost can be reliably determined.

7B An item of property, plant or equipment recognised in a prior reporting period must be derecognised if, only if, either:

(a) it is not probable that future economic benefits comprising the asset will flows to the entity; or

(b) the cost of the asset, its recoverable amount, or when where the asset is carried at a revalued amount, the fair value of the asset, cannot be reliably measure.

Paragraph 22A

Replace “written off” with “recognised as an expense”.

Paragraph 23

The use of “when, and only when” has the same defect as elsewhere. This defective drafting must be corrected.

Paragraph 23A

Logically paragraph 23A should be before paragraph 22A (doing so will avoid the drafting problem in paragraph 23). I have real difficulty in understanding why exceptions are presented first and the general rule last. A logically formulated standard would do it the other way around. Assuming the paragraphs are reorder, the equivalent of paragraph 23A would provide:

> Expenditure made subsequent to the initial recognition of an item of property, plant or equipment must be recognised as an expense in the reporting period in which the expenditure occurs except when paragraphs 22B or 23 apply.

Paragraph 34

The requirements of this paragraph seem to be inconsistent with the general principle established in paragraph 29. It seems to be extremely wasteful to revalue assets the carrying amount of which is not materially different from their fair value merely because one other asset in that class is found to have a carrying amount that is materially different from it fair value.

Paragraph 41

Obviously someone was not paying attention when this paragraph was drafted. In the second sentence it must be “depreciation expense” not “depreciation charge”.

Suggest replacing “unless” with “except to the extent that”.

Paragraph 46

The requirements of the implementation guidance in paragraph 42 do not seem to flow form any of the preceding standards. Accordingly paragraph 46 must be restated as a standard.

Paragraph 53A

In paragraph 53A to make sense it must be “included in the determination of the profit or loss” to be consistent with IAS 3 paragraph 73 (see also my comments on the drafting of that paragraph).

Paragraph 66

See comments on paragraph 53A.

International Accounting Standard IAS 17

Leases

Invitation to Comment

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?

No I do not agree. The question is, are the future economic benefits controlled by the entity – to the extent that they are, an asset must be recognised. The legal distinction between land and buildings is, in this context, irrelevant.

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.

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?

I do not agree. The costs must be recognised as an expense in the reporting period in which they are incurred. There is no necessary nexus between incurring the costs and the ultimate realisation of future economic benefits.

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?

If they are to be recognised, only incremental cost should be included.

Other Comments

Paragraph 3

No definition of the terms “manufacturer lessor” or “dealer lessor” – the meaning of neither term is obvious. Absent a definition, there is a risk that comparability will be impaired.

Paragraph 34 – inappropriate use of “profit or loss”

This usage is inconsistent and inappropriate. The term “selling profit or loss” is unclear. The paragraph must be completely redrafted. I note that the Australian standard, AASB 1008, in which such leases are described as “sales-type leases”. They are defined as:

> ***sales-type lease*** **means a finance lease in which the fair value of the asset at the inception of the lease differs from its** ***carrying amount*** **to the lessor**

> **Where a lease is classified by the lessor as a** ***sales-type lease*****, the difference between the fair value of the leased asset at the inception of the lease and its carrying amount must be recognised by the lessor as a revenue or an expense of the** ***financial year*** **in which the transaction takes place.**

International Accounting Standard IAS 21
The Effects of Changes in Foreign Exchange Rates
Invitation to Comment

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?

I have considerable reservations about the use of the concept of functional currency. The guidance proposed in paragraphs 7 to 12 do not address the relevant question. The key questions must be, in what currency would users of the financial report prefer it to be presented. When the majority of users – for example owners – reside in the country of domicile, then logically providing the relevant information to users must be predicated on it being provided in domestic currency. In doing so, the financial report reflects the consequences of the decisions by management to conduct transactions in currencies other than the domestic currency and to operate in countries other than the country of domicile. Given the requirements of IAS 21, in particular the rules for conversion into presentation currency (see paragraphs 37. 40 and 41), information presented under the revised IAS 21 cannot reasonably be said to be likely to meet the need of users of the financial report.

The use of functional currency reeks of opportunism as it appears that the only virtue of the method is that it has the effect of reducing the volatility in the amounts presented in the financial report. Since the economic reality being portrayed is volatile, the depiction of that reality in the financial report must reflect that volatility rather than trying to hide it.

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?

No, the currency must be the one that best meets the information needs of users of the financial report.

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)?

These provisions are inappropriate. The amounts presented should be the same regardless of wether the presentation currency is the functional currency or some other currency. Accordingly, the conclusion of the Board in paragraph A14 is not supported.

Question 4 Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

Yes, the alternative must be removed.

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)?

I have no firm views on this matter.

Other Comments

As can be seen from my earlier comments, I believe the use of functional currency to be misconceived. It should be abandoned as it is not directed to the information needs of the users of the financial report.

International Accounting Standard IAS 27

Consolidated and Separate Financial Statements and Accounting for Investments in Subsidiaries

Invitation to Comment

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

The criteria in paragraph 8 are insufficient. For example, it would not cover the case where there has been a "public" issue of securities but those securities are not listed for trading on a securities market. Also, the term "publicly traded" is not sufficiently precise – differing interpretations would be possible.

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)?

Yes, I agree.

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)?

No, I do not agree. If fair value can be estimated reliably, IAS 39 must be applied.

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)?

Yes, Ia agree.

Other Comments

Paragraph 6

It is not immediately clear what is meant by the term “govern” in the definition of control. It would be appropriate to include implementation guidelines to clarify the meaning.

Paragraph 8

As note above, the meaning of the term “not publicly traded” (paragraph 8(b)) is not sufficiently precise. Also, the term “public securities market” is indeterminate – does it mean that the securities will be listed on an exchange or merely that we have a issue of securities that is regulated by the relevant securities laws? Further, the proposed test is not directed to whether or not there exists users who would need the information in the consolidated financial statements in regulating their relationship with the entity (see Framework paragraphs 9 to 14). For example, in Australia, many debt issues are available for subscription by anyone but they are not traded on a securities exchange. Clearly, in such cases the non-presentation of consolidated financial statement is inappropriate.

In the last paragraph, the words “for separate financial statements” are redundant.

Paragraph 11

The expression is verbose and not particularly easy to understand (due to the inclusion of the word “consolidate”). I suggest the following rewording:

> Subject to paragraph 13, consolidated financial statements deal with the parent and all of its subsidiaries.

Paragraph 13

I suggest adding after “when” the phrase “, and only when,” – this would be consistent with the usual drafting practice. In the second last line, for clarity it should be “including in determining the net profit or loss”.

Paragraph 15

The requirements of paragraph 15 are substantive rather than implementation guidelines, thus they must be presented as a standard. Failure to do so will may render the requirements ineffective in jurisdictions such as Australia where the rules of statutory interpretation may exclude consideration of such implementation guidelines.

Paragraph 18

The use of the undefined term “fixed assets” is inappropriate – it is not defined in the glossary and is inconsistent with classification of assets in IAS 1 where the distinction is between current and non-current assets. The term “fixed assets” is both an anachronism and potentially misleading and deceptive.

Paragraph 19

This paragraph is poorly drafted. I suggest that it be redrafted by first establishing the general principals that

(i) the reporting date for all entities in the group; and

(ii) the length of the reporting period of all entities in the group

must be the same and then clearly identifying the exceptions.

Paragraphs 19 and 20

The expression “prepared as of the same date” is nothing more that a verbose way of saying “have the same reporting date” – the term reporting date being used elsewhere in those paragraphs.

Paragraph 23

Some of the requirements of this paragraph appear to me to be standards rather than implementation guidelines – indeed they seem to establish general principles to be applied in the process.

Paragraphs 27 and 28

The requirements in these paragraphs go beyond the requirements imposed in prior standards; to the extent that they do so they are not implementation guidelines and should be redrafted as standards.

Paragraph 32

In paragraphs 32(c) and (d), an entity does not "own" voting rights, it controls them. These paragraphs seem to confuse ownership of equity interests with the ability to control a meeting of the members (owners) in general meeting or the appointment of the majority of the members of the controlling body (or control the majority of votes of such a meeting when they are not exercised on a one-for-one basis)

International Accounting Standard IAS 28
Accounting for Investments in Associates
Invitation to Comment

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)?

This proposal creates what amounts to an unregulated choice. It would be preferable if IAS 28 and 31 must not be applied if fair values can be reliably estimated under IAS 39.

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)?

I have no firm views on this proposal.

Other Comments

Paragraph 3

Definition of associate – should it not be “over which” rather than “in which”.

Definition of significant influence – it is possible to participate in a decision making process without having any real ability to change the outcomes of the process. In such cases it cannot properly be said that any influence, let alone a significant one is present.

Definition of the equity method. I suggest redrafting the second sentence as follows:

> An investor, in determining its net profit or loss for a reporting period, includes its share of the investees profit or loss for the corresponding reporting period.

Paragraphs 16 to 17

Some of the matters included in these paragraphs establish general principles not inherent in prior standard paragraphs, accordingly they should be included in one of more standard paragraphs.

Paragraph 18

This paragraph has the same drafting defects as paragraph 19 of IAS 27 (see earlier comments).

Paragraph 20

This paragraph establishes a general principle not merely implementation guidance, thus it must be redrafted as a standard.

Paragraph 23

Add immediately before paragraph 23 a standard paragraph stating that IAS 36 applies to investments in associates.

Paragraph 28

The use of the term “long-term assets” is both inappropriate and inconsistent with the classification scheme used in IAS 1 – the correct description is “non-current asset”. It is extremely disappointing that such an obvious error was not corrected before the publication of the invitation to comment.

Paragraph 28A

This paragraph is intriguing – there does not seem to be any standard either permitting or requiring such a practice. I suppose it could be inferred from the definition in paragraph 3; however relying on inference rather than an express requirement is unacceptable in something that purports to impose a standard of conduct. It is disrespectful to those who have to apply the provisions of the standard and is indicative of defective reasoning and a lack of attention to detail.

International Accounting Standard IAS 33

Earnings Per Share

Invitation to Comment

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?

Yes, I agree.

Question 2 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.

  Constituency would suggest that this proposal is appropriate.

- 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).

Other Comments

Paragraph 2

To avoid doubt, I suggest adding at the end of the paragraph “even if paragraph 1 is not applicable”.

Paragraph 3

I am not an expert on these maters, however unless a warrant is identical in all respect to an option, the conjunction should be “and” rather than “or”.

Definition of “contingently issuable ordinary share” – the term “pursuant” is stilted and pretentious, used “under” instead.

Paragraph 8

This paragraph is extremely difficult to understand. It needs to be redrafted in a way that make the meaning unambiguous. The expression ”earnings per share for profit or loss from continuing operations” is both awkward and unclear. I suspect that the meaning would be clearer if “for” was replaced by “using”.

Paragraph 10

Again, this paragraph is poorly drafted. I suspect the problems is caused by the failure to define a key term, requiring a convoluted drafting of paragraphs 8 and 10. I suggest that a good starting point in redrafting these provisions would be the corresponding paragraphs in the Australian standard, AASB 1028.

The expression “for the purpose of calculating” is verbose, replace with straightforward term “When calculating”.

Paragraph 17, 26, 28, 31 and 35

The expression “for the purpose of calculating” is verbose, replace with straightforward term “When calculating”.

Also, where applicable, replace “calculated in accordance” with no verbose “calculated under”.

Paragraph 37

Replace “shall be treated as” with “are”. Simplicity is preferable to verbosity.

Paragraphs 56

As suggested previously, replace “balance sheet date” with “reporting date”.

Paragraph 58

This paragraph has the same deficiencies as paragraphs 8 and 10.

Paragraph 61

The drafting is unnecessarily verbose. I suggest redrafting as follows:

> An entity must present basic earnings per share and diluted earnings per share even if the amounts are negative.

International Accounting Standard IAS 12

Income Taxes

Paragraph 81

Consistency of expression requires the use of “debited” rather than the archaic (and potentially misleading) expression “charged”. In paragraph (i), replace “in respect of” with the less verbose “for”.

International Accounting Standard IAS 19

Employee benefits

Paragraph 148

In paragraph 148(a) replace “period” with “reporting period”.

International Accounting Standard IAS 22
Business Combination

Paragraphs 88, 91 and 94

Replace the word “period” with the term “reporting period”.

Paragraphs 94

In paragraph 94(c), is it intended to exclude items of income that are not revenue? If so, it is unclear why such amounts should be excluded.

Paragraphs 96

Replace “balance sheet date” with “reporting date.

International Accounting Standard IAS 38
Intangible Assets

Paragraph 7

I suggest replacing "residual value" with "residual amount" as the term "amount", is neutral whereas "value" is not.

Paragraph 60

I suggest redrafting in the same way as the corresponding paragraph in IAS 16, for the same reasons.

Paragraph 60

Replace "charge" with "expense".

Paragraph 103

Surely derecognition must also take place when it is no longer possible to measure the future economic benefits (this can occur other than in the circumstances mentioned in paragraph (b)).

Paragraph 104

See my comments on the corresponding provision of IAS 16.

International Accounting Standard IAS 40
Investment Property

Paragraph 22

This paragraph is poorly drafted. The expression is verbose. For example, the paragraph could commence with the words "Post-recognition expenditure ….". Of course, other changes must also be made if the meaning is to be clear and no verbose.