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International Accounting Standards Board
30 Cannon Street,
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Dear Members of the International Accounting Standards Board:

We appreciate this opportunity to comment on the Exposure Draft of Proposed Improvements to International Accounting Standards. As Singapore is rapidly implementing IAS, and intends to issue each new standard or revision as soon as IAS issues a pronouncement, we are taking this opportunity to respond from that perspective.

Before addressing the specific proposed changes, we would like to address the proposed implementation date. We believe that if the revisions are made effective for periods beginning on or after January 1, 2003, this will not provide entities with sufficient time to understand the implications of the revision and to adequately prepare particular changes, such as the concept of functional currency. We are of the opinion that the IASB is pushing through too many improvements in too short of a time frame, and in doing so, increase the risk that the changes will not gain acceptance in practice. We recommend that at least six months lead-time from the date of publishing an IAS to the date it is effective should be permitted, as has been past practice. For ease of responding to all amended paragraphs, changes must be marked up in your exposure draft.

Proposed Improvements to International Accounting Standard IAS 1 (revised 1997) Presentation of Financial Statements

Question 1

Yes, we 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.

Question 2

Yes, we agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes because these items will be captured as exceptional items.

Question 3

No, we do not 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.

The balance sheet date is the date the item must be determined to be a liability. The balance sheet date need not be the date when classification as current or non-current is determined. IAS 10 does not address what date determines presentation, as it deals only with measurement and disclosure. The overriding principle of financial reporting is that the financial statements provide a true and fair view. Therefore, the best information available should be provided. The best information is what is known before issuing the financial statements, not at the balance sheet date.

Substance over form should always determine accounting treatment.

IAS 1 should be amended to reflect that any classification issue should be made based on the information available on the date of issue, not the balance sheet date.

Question 4

No, we do not agree that:

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.

Yes, we do agree that:

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.

Question 5

No, we do not 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. This should already be a part of the accounting policy disclosures or requirements of specific standards such as IAS 32. The requirement is too vague.

Question 6

No, we do not 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.

Disclosure of key measurement assumptions on future interest rates, future salaries, future changes in prices affecting costs and useful lives as proposed in IAS 1.113 and 114 is unrealistic; impossible to audit; and is susceptible to imagination and totally unrealistic.

The notes to the financial statements are audited and you would now be asking auditors to audit assumptions about the future. This information is generally required in sections of the annual report referred to as the Management Discussion and Analysis ("MD&A") or Operating and Financial

Review ("OFR") and belongs there, as the auditor is only responsible for ensuring that the information is not inconsistent or knowingly false.

Other Comments:

IAS 1.4:

The word "enterprises" is used when "entities" should be used.

IAS 1.35-38:

The phrases, "Undue cost or effort" and "the nature of the changes" that would be made are vague concepts. It would appear that undue cost or effort would be entirely at the discretion of the issuer of the financial statements. This would welcome abuse. Likewise, disclosure of the nature of changes that would be made would require information to be disclosed that would allow the financial statements to be restated. It would follow if the adjustments were known, the cost or effort to restate would be minimal. We believe that it would be preferable to allow an alternative treatment when the information would be of little value to users and then to establish a clear disclosure requirement. We recommend allowing the use of headings instead of line items and providing the information pro forma using the headings consistent with the current year. This would allow users to analyse the statements without doing their own restatement. The reason of "undue cost or effort" must not be permitted for not restating comparatives. If this is allowed, the purpose of showing comparatives is defeated.

IAS 1.47:

The paragraph states "shall", but "should" is correct when an exception is allowed.

IAS 1.57:

Suggest a third line for liabilities payable on demand. While the standard discusses how to treat liabilities payable on demand in IAS 1.62-64, it should also reflect this is IAS 1.57.

IAS 1.60:

An entity should be allowed to use substance over form in determining classification, and therefore take into consideration subsequent refinancing of short-term debts as is currently permitted under the standards.

IAS 1.72(a)(vi):

It is not clear why shares of the parent held by a joint venture would not be considered treasury shares when subsidiaries and associates would be included in the consolidated balance sheet as a deduction from equity. It would appear that any entity consolidated or equity accounted by the parent would be deemed to be holding treasury shares.

As more and more business structures are created, such as partnerships and special purpose entities, the use of limiting terms like subsidiary and associate is not advised. References throughout the standards should reflect how the entity is accounted for. This is usually the determining factor, not whether it is controlled or significantly influenced, and certainly not what it may be termed; subsidiary, associate, joint venture, partnership, cooperative, special purpose entity, etc.

IAS 1.102 (a) & (d):

The disclosures on the address of the registered office (or place of business, if different from the registered office), and its number of employees should not be removed, as they are useful. Disclosures on place of business are necessary to appreciate country risk factors.

IAS 1.105(q):

Definition of business segment and allocation of costs is not an accounting policy and should therefore be disclosed in the note on segments and not as an accounting policy.

IAS 1.113 & 114:

Disclosure of key measurement assumptions on future interest rates, future salaries, future changes in prices affecting costs and useful lives is unrealistic; impossible to audit; and is susceptible to imagination and totally unrealistic.

Proposed Improvements to International Accounting Standard IAS 2 (revised 1993) Inventories

Question 1

No, we do not agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under IAS 2.23 and 24.

LIFO should be allowed if it best reflects the flow of inventory. It should not be an alternative of choice, but a reflection of circumstances.

Question 2

Yes, we agree with the requirements in IAS 2, which requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist and that the amount of any reversal of any write-down of inventories to be recognised in profit or loss.

Other Comments:

IAS 2.16:

This paragraph is not clear.

The standard indicates that a service provider is deemed to have inventory for services provided but not recognised in revenue, to the extent of direct costs. This is a concept that would apply if the completed contract method were used, as the costs would be part of work in process. The completed contract method is no longer an allowed alternative under IAS, and is only permitted when the percentage of completion method cannot be applied, therefore this paragraph should include this limitation on its applicability. It is inconsistent to recognise an asset, inventory, under circumstances that result in revenue not being recognised due to an inability to measure revenue or cost, or even more importantly, probability of collection. IAS 18.20 provides revenue recognition criteria for services as follows:

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the enterprise;

(c) the stage of completion of the transaction at the balance sheet date can be measured reliably; and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

If any of these criteria were not fulfilled, the service revenue would not be recognised and therefore the direct costs would become inventory under the proposed standard. It does not make sense that if revenue is unlikely to be collectable, the costs would be inventory or that if revenue cannot be measured reliably, the costs are inventory. If the stage of completion cannot be determined, it would be inappropriate to recognise an asset when you cannot determine whether or not you will profit from providing the service. Also, recognising an asset when you cannot measure the costs incurred would be impossible, as you have no way to measure the asset. Finally, if the costs required to complete cannot be determined, you would not be able to determine if any profit will result from providing the service, so recognition of an asset would be inappropriate. This paragraph should be revised to ensure that the criteria for recognition of an asset are met before inventory or deferred expenditure is recognised.

Proposed Improvements to International Accounting Standard IAS 8 (revised 1993), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

Question 1

Yes, we 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.

Question 2

Yes, we agree with eliminating the distinction between fundamental errors and other material errors.

Other Comments:

IAS 8.5(b)(iii):

The abbreviation, “ie”, should be “i.e.”.

IAS 8.13:

The phrases, "Undue cost or effort" and "the nature of the changes" that would be made are vague concepts. It would appear that undue cost or effort would be entirely at the discretion of the issuer of the financial statements. This would welcome abuse. Likewise, disclosure of the nature of changes that would be made would require information to be disclosed that would allow the financial statements to be restated. It would follow if the adjustments were known, the cost or effort to restate would be minimal. We believe that it would be preferable to allow an alternative treatment when the information would be of little value to users and then to establish a clear disclosure requirement. We recommend allowing the use of headings instead of line items and providing the information pro forma using the headings consistent with the current year. This would allow users to analyse the statements without doing their own restatement.

IAS 8.19:

It is not always possible to show the effect of a new standard when it is not even effective. What is the purpose of having an effective date if you are already required to compute its effect? For some standards such as IAS 39, it is impractical or even impossible.

IAS 8.32(b):

The sentence would be clearer if it ended “the earliest period shown” rather than “that period”.

Proposed Improvements to International Accounting Standard IAS 10 (revised 1999), Events After the Balance Sheet Date

IAS 10.8(a):

The word "new" in this paragraph is confusing as it implies there is an "old" provision, when in fact this would be a liability for which a provision had not been recognised. The word "new" should be dropped.

IAS 10.21(h):

The use of the tax rate in force at the balance sheet date is misleading in countries where the tax rate is announced after the year-end but before the finalisation and announcement of results. The change in rate should be an adjusting event, as it is reflects information learned after the balance sheet date relevant to measuring an event that existed at the balance sheet date.

Proposed Improvements to International Accounting Standard IAS 16 (revised 1998), Property, Plant and Equipment

Question 1

No, we do not agree that all exchanges of items of property, plant and equipment should be measured at fair value.

Fair value is a concept that should be used for investments and financial instruments, as it is a relevant measure of value (balance sheet) and change in value (income statement). For those assets consumed by the enterprise to generate revenue, the cost of the asset is the most relevant measure as there is no real change in value in these exchanges. The new value shown in the balance sheet reflects future earnings that will result from the asset.

If the IASB insists on using fair value for all assets, they should not allow changes in value to be recognised in income until that asset or asset received in exchange has been disposed of or sold for a monetary asset. Any intermediate gain would be shown as a revaluation of PPE. The revaluation reserve should be taken to income incrementally to eliminate any increased depreciation, thereby maintaining the cost convention of the income statement and the fair value concept of the balance sheet. IAS 12 allows the tax consequences to be taken to equity, when in fact there may be a tax liability created that will result in an outflow of economic benefit, which is the definition of an expense. This approach would align with that used in IAS 12. It would appear that the revaluation reserve created by a revaluation outside of a business combination should always be used to offset an increase in depreciation that results in no outflow of economic benefit and should not be used for an increase in tax expense that will result in an outflow of economic benefit. If the revaluation reserve is created due to a business combination, the existing rules on revaluation surpluses should apply.

While the IASB would like to place fair values on all assets under the notion that this information is superior to historical cost, that viewpoint only serves the balance sheet, which is of secondary importance for investors. The cost of an asset should not be revalued upward by way of exchange for a similar asset.

If IAS 16.57 and 58A are amended to reflect a fair value approach for assets exchanged for similar and dissimilar assets, the change should require all exchanges of inventory and wasting assets to be recognised at historical cost, as the relevant measure of these assets is cost, not fair value, as they are consumed in the earnings process.

If one were to apply this standard to swaps of tangible assets, such as equipment, you essentially take one tangible asset and exchange it for equipment of another entity. From an economic standpoint, all that has happened here is that the entity has traded an asset used in the production of goods or services for an asset also to be used in the production of goods or services that it equally values. The accounting treatment would be to take the fair value of the equipments and value them based upon a discounted profit stream (which would include future profit) or the cash value of the asset in the market. If these assets have been fully depreciated, they have no cost, and therefore the entire fair value is income even though there has been no economic change, realisation of income or culmination of an earnings process. Consideration must be given to recognising profit or loss when the earnings process is complete not by a mere exchange of assets.

Question 2

No, we do not agree that all exchanges of intangible assets should be measured at fair value for the same reasons noted above.

IAS 38.34, 34A, 34B, 35 and 105, and SIC 13.5 are amended to reflect a fair value approach for assets exchanged for both similar and dissimilar assets. The change should be to require all exchanges of wasting assets to be recognised at historical cost as the nature of these assets if that they are consumed in the earnings process and what is relevant is their cost, not their fair value as discussed above.

If one were to apply this standard to swaps of intangible assets, such as usage rights, you essentially take a license to use a tangible asset and exchange it for that of another entity.

From an economic standpoint, all that has happened here is that the entity has traded its capacity for the right to use the capacity of another entity. The accounting treatment would be to take the fair value of the rights of usage and value them based upon a discounted profit stream or the cash value of the asset in the market. As these assets have no cost, in that no part of the tangible asset has been disposed of, the entire fair value is income, but the entity is really no better off economically than before.

As stated above, we do not find this treatment consistent with the overriding concepts of prudence, conservatism, substance over form or economic reality. It would appear that the proposed standard would validate the questionable accounting practiced in the U.S. telecommunications industry. Accounting that has been determined substandard by the U.S. Securities and Exchange Commission.

Question 3

No, we believe that the depreciation of an item of property, plant and equipment should cease when it becomes temporarily idle or is retired from active use and held for disposal if there is no technical obsolescence and not merely because it is temporarily idle.

If an item of property, plant and equipment is still subject to technology obsolescence, physical deterioration or loss of its productive abilities by virtue of the passage of time, it should continue to be depreciated, but if it simply faces a loss of value, it should be impaired. While many or even most assets would continue to be depreciated while held for disposal, all should not continue to be depreciated when economic substance defies this treatment.

The impairment test required by IAS 36 will take care of any additional depreciation that maybe required.

Other Comments

IAS 16.20A:

IAS 16.20 states that costs to dismantle or remove an asset, or costs to restore a site, may be incurred when the asset is acquired, or during subsequent periods, and should be depreciated over the remainder of the asset's useful life. This section should be clarified to indicate that the cost is to be capitalised when the liability is recognised. In reading this, you could easily conclude that you capitalize the costs when incurred, rather than when the liability is recognised. For example, if a company enters into a property lease for which it will incur site restoration costs, those costs are recognised and capitalised at the inception of the lease, thereby spreading the expense over the remaining life of the lease.

IAS 16.22A:

The concept of renewal, previously referred to as major overhaul, has been aligned with the replacement of an asset, when it should be aligned with an inspection.

16.22A. Expenditure incurred in replacing or renewing a component of an item of property, plant and equipment shall be accounted for as the acquisition of a separate asset, and the carrying amount of the replaced or renewed component asset shall be written off.

When an asset is acquired, a component should be recognized for each component, including the cost of renewal. For example, an airplane engine is overhauled every three years at a cost of $1 million and the engine with a cost of $16 million and a useful life of 15 years would be accounted for as an asset with a value of $15 million (the engine) and an asset (the renewal) with a value of $1 million.

Under the proposed 22A, the engine (component asset renewed) would be written off, when in fact, it should be the renewal written off. This paragraph only is correct with regard to replaced assets. Renewed assets should continue to be depreciated if their useful life has not passed.

The standard should continue to group renewal and inspection costs together, making it clear that when an asset is purchased, an amount for these two costs, if applicable, would be estimated and allocated against the cost of the other component assets as a reduction in their recognized value. This would be done based upon the renewal and/or inspection costs related to each component or by an allocation method based on relative value of the components.

16.22D:

Are you suggesting that ISO 9000 costs or costs of such a nature can be capitalised? We agree such costs should be capitalised. It should be clearly stated that this is the initial cost and not the recurring expenditure.

16.53A:

With regard to recognising compensation for the impairment of items of property, plant and equipment, the word “received” should be changed to “qualifies to receive it” as used in IAS 20.20 and 21 (a similar circumstance involving compensation for costs incurred). Received suggest a cash basis of accounting, when an accrual basis or matching concept should be applied.

Proposed Improvements to International Accounting Standard IAS 17 (revised 1997), Leases

Question 1

No, we do not agree with the proposed treatment in IAS 17.3-10, 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 IAS 17.11 and the buildings element is classified as an operating or finance lease by applying the conditions in IAS 17.3-10.

It is sometimes difficult to split land and building costs. In particular, if the acquisition is a freehold or leasehold unit within a building. Therefore, it should not be mandatory to split account for a lease of land and building(s). If both the land and building are to be accounted for under an operating lease, nothing is gained by splitting the two elements. Obviously, if one is to be accounted for as a finance lease and the other as an operating lease, then they must be split.

Question 2

Yes, we agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term. Moreover, we also 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.

Proposed Improvements to International Accounting Standard IAS 21 (revised 1993), The Effects of Changes in Foreign Exchange Rates

Question 1

Yes, we 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 IAS 21.7-12 on how to determine what is an entity's functional currency.

Question 2

Yes, we 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 as long as it is it's functional currency.

Question 3

Yes, we 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.

Question 4

No, we do not agree that the allowed alternative to capitalise certain exchange differences in IAS 21.21 should be removed. The alternative is necessary for situations when the currency becomes so severely devalued that the translated value of the asset no longer reasonably reflects its value as an input or as an item available for sale.

For example, if an item of equipment is purchased using a loan of US$25 million in a country where the local currency, for example, Thai Baht, is devalued 100% in relation to the US$, the asset and liability would both be worth US$25 million of Baht. To take the foreign exchange loss on the liability to income when the asset would cost twice as much to replace or would produce twice as much revenue is not consistent. The translation loss of the loan should be capitalised as part of the asset and reflected as cost of goods sold or depreciated in order to match revenue. IAS 36 on impairment of assets would take into account any overstatement of the asset.

Question 5

Yes, we 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.

Other Comments:

IAS 21.14:

We believe that monetary items should include quoted investments. Unquoted investments only should be non-monetary items. Quoted investments are as good as cash deposits, i.e. they are convertible to cash on demand. Quoted investments under IAS 39 are required to be revalued to fair market value at the end of the period, therefore the closing rate should be used.

Actively traded inventories such as gold and other commodities should be translated at the year-end rate.

IAS 21.24:

The paragraph states that if exchangeability is temporarily lacking between two currencies, the first subsequent rate at which exchange could be made is used. It would seem that the latest rate would be used, as the first subsequent rate is a future event that cannot be determined. Moreover, this should only apply if a currency is essentially not exchangeable, for example the Cambodian Riel and the Sri Lankan Rupee. If both currencies are convertible into euros, an exchange rate could be derived.

IAS 21.35 & 21.47:

We disagree with the approach of not transferring exchange difference to the income statement until disposal of the operation. In all situations where there has been a substantial disposal of the assets of the foreign entity or a substantial dividend payment has been made by the foreign entity to its holding company, consideration must be given to transferring part of the currency differences in equity to the income statement on the basis that there has been an element of realisation of these currency differences. This is particularly true when there has been a substantial dividend payment.

Goodwill on acquisition must be transferred at the historical rate rather than the closing rate. Goodwill should also be recorded in the parent entity's group accounts and not recorded in the subsidiary entity's accounts as suggested by this paragraph.

IAS 21.46:

The standard should establish that translation reserve is realised upon disposal, but it is also realised when losses are incurred or dividends are paid. The issue of how to account for equity should be addressed in the standard in a clear manner in order to create consistency in practice.

IAS 21.55:

We believe that IAS 21.55 should be removed. The IASB should not provide such alternatives as it defeats the purpose of having standards. This paragraph allows an entity presenting its financial statements in a currency other than their functional currency to not follow the accounting standards if they make certain disclosures as supplementary information. This allows an entity to chose to present the information on another basis of accounting for no apparent reason. Moreover, it is complicated information that will only to lead to more confusion. Surely it is the objective of IASB to prescribe one standard rather than permit alternatives that have no basis.

Proposed Improvements to International Accounting Standard IAS 24 (reformatted 1994) Related Party Disclosures

Question 1

No, we do not 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. Management compensation disclosures are important, as they are similar in nature to related party transactions that may or may not reflect arms length value especially so in entities that are substantially owner managed which applies to most entities. Management compensation should also be defined to include benefits-in-kind.

Question 2

No, we do not 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.

For practical purposes, if the parent and a wholly owned subsidiary is incorporated in a different country, it will not be cost efficient for users of the subsidiary's financial statements to search for the parent entity's financial statements. Thus, such exemption should only be made when both entities are incorporated in the same country and are required to publish financial statements in that country. Therefore, no exceptions should be permitted.

Other Comments:

IAS 24.9:

Based on the criteria for a close family member, that being the expectation of influencing or being influenced, parents and siblings should be included in the definition of a related party.

IAS 24.10:

What is meant by a domestic partner? This term would likely be construed as a person with whom you share a residence, either inside or outside of marriage. This is not accurate, as it would include a roommate or boarder with whom you only have a rent-sharing or landlord-tenant relationship. It would appear that the concept of a family relationship and financial interdependency needs to be included in the definition.

Proposed Improvements to International Accounting Standard IAS 27 (revised 2000), Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Question 1

Yes, we agree that a parent need not prepare consolidated financial statements if all the criteria in IAS 27.8 are met, but we are concerned with the requirement in IAS 17.8 (d), that the immediate or ultimate parent prepare accounts in accordance with IFRS. The accounts of the intermediate or ultimate parent will be prepared in accordance with accounting standards that are appropriate to the investing environment in which that holding company lists. The reason for not providing consolidated accounts at the lower level is that there is no user of his information. Whether or not that information is consolidated at a higher level using IFRS should not be relevant.

Question 2

Yes, we agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interest is not a liability, and it is not part of the parent's shareholders' equity either. It should be clearly stated that minority interest is not part of shareholders equity, as equity suggest shareholders equity.

Question 3

IAS 27.29

No, we do not 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. They should be carried using the same method in both the group and company level accounts and fair value should not be an allowed method.

Investments in subsidiaries, associates and joint ventures should only be carried at cost less permanent impairment and dividends received, the equity method, or in the case of joint ventures, proportionate consolidation. Fair value is not relevant at the company level, as these statements are used to determine distributable profit and fair value accounting does not consistently provide a reasonably reliable figure. IAS 27.29 would also contradict IAS 39.3, which states that IAS 39 does not apply when accounting for subsidiaries, associates and joint ventures.

Other Comments:

Page 231:

The word "Inventory" appears in front of International Standard. It should be removed.

IAS 27.12B:

The word "considered" is used. This term is unclear. To some it may mean that the potential shares are to be determined and included in the percentage of ownership and to others that would be discretionary as it only need be considered. If the potential voting rights are to be included in the determination of percentage of ownership, that requirement should be clearly stated.

IAS 27.13:

We do not agree with the requirement to exclude only subsidiaries disposed within 12 months. The old requirement of intention at the time of acquisition should be applied to acquisitions with intention to dispose. It is not reasonable to impose a 12-month rule because an enterprise should be allowed to wait until the price is right. This often applies to venture fund companies acquired by way of exercising a security, such as banks.

The same principal applies to investments in subsidiaries, associates or joint ventures. Therefore, we do not agree to such changes, as substance over form must prevail.

IAS 27.32:

The requirement to disclose summarised financial information about subsidiaries excluded from consolidation because control is temporary is meaningless information. Such subsidiaries should be stated at net realisable value or we should state that such investments should be stated in accordance with IAS 39.

Proposed Improvements to International Accounting Standard IAS 28 (revised 2000), Accounting for Investments in Associates

Question 1

Yes, we 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.

Question 2

Yes, we 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.

Other Comments:

IAS 28.1:

A paragraph similar to IAS 28.1 should be inserted in IAS 27 with regard to subsidiaries as follows:

This Standard shall be applied by an investor in accounting for investments in subsidiaries. However, it does not apply to investments in subsidiaries held by venture capital organisations, mutual funds, unit trusts and similar entities that 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. When such investments are measured at fair value, changes in fair value are included in profit or loss in the period of the change.

IAS 28.5A:

The word "considered" is used. This term is unclear. To some it may mean that the potential shares are to be determined and included in the percentage of ownership and to others that would be discretionary as it only need be considered. If the potential voting rights are to be included in the determination of percentage of owner ship, that should be stated.

IAS 28.5A:

Same comment as for IAS 27.12B above.

IAS 28.8:

Same comment as for IAS 27.13 above.

IAS 28.27(b):

Same comment as for IAS 27.32 above.

Proposed Improvements to International Accounting Standard IAS 33, Earnings Per Share

Question 1

Yes, we 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.

Question 2

Yes, we 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).

Other Comments:

IAS 33.4:

"Warrants or options" should be "Warrants and options" and these instruments do not necessarily give the holder the right to purchase ordinary shares, they may be conditional, such as employee share options that require vesting, so the definition should say "may give".

IAS 33.11:

"Preference share" are referred to as "preferred share". This is part of a consistency problem throughout the standards, with preference shares, preferred shares and preferred stock used interchangeably. It would be best to settle on one, with "preference shares" being the better choice. A similar problem exists for preferred and preference dividends. The language should be consistent.

IAS 33.16:

"Preference share" are referred to as "preferred share".

IAS 33.22 and 33.56:

Both of these paragraphs address when the denominator should be restated. While IAS 33.22 makes it clear that a change in the number of shares without a corresponding change in resources triggers restatement or adjustment, IAS 33.56 does not include this phrase. Inclusion of this phrase and consistent use of the word adjustment or restatement would make it clear that the same concept is being addressed.

IAS 33.23:

Item (a) indicates that a capitalisation or bonus issue does not result in an adjustment to the denominator. It would be clearer if this sentence read: (a) a capitalisation of reserves or bonus issue.

IAS 33.42:

The abbreviation, “ie”, should be “i.e.”.

IAS 33.56:

The last sentence should be “for all periods” not “of all periods”.

IAS 33.66:

Disclosure of EPS information compiled on a pro forma basis or basis other than required by the accounting standards should be restricted to the notes, so as not to confuse the user. Furthermore, it should be clearly labelled as such, with a clear reconciliation to the basic and diluted EPS required by the standards as this information is essentially compiled under another basis of accounting. This reconciliation would require full disclosure of assumptions, policies, measurement approaches and recognition criteria that differs from the accounting standards.

IAS 33.A4, A5, A7:

The heading is Warrants and Options, but the paragraphs cited “warrants or options”. It should be warrants and options.

IAS 33 Appendix B:

The index lines for Example 10 and Example 12 have the term, “Earnings per Share” spelled with a small “p”.

IAS 33 Appendix B Example 1.3:

The abbreviation, “ie”, should be “i.e.”.

Proposed Improvements to International Accounting Standard IAS 40, Investment Property

Question 1

Yes, we 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 40.27-49.

Question 2

Yes, we 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.

Question 3

No, we believe that the Board should eliminate the choice between the cost model and the fair value model now. The cost model is not appropriate for investment properties and the option should be eliminated. The cost model should only be allowed if fair value cannot be determined.

The cost model is relevant for property that is being consumed by operating activities, not being held as part of investing activities. The fair value should be aligned to that used in IAS 39 for available-for-sale financial instruments. Movements should not be taken to income, but to equity until realised.

Consequential Changes

IAS 14.16:

The word "enterprise" is used twice when "entity" should be used.

Appendix Page 14-40, middle column, last line:

The item shown is "Revenue from external customers by geographical customers if different from location of assets". "Geographical customers" should be "location of customers".

IAS 37.75 (b):

The word "enterprise" is used when "entity" should be used.

IAS 40.67 (e)

The word "enterprise" is used when "entity" should be used.

Other Comments:

In the future, all standards that are revised should be shown with tracking changes to allow the reader to identify more quickly the changes. By decreasing the amount of effort expended reviewing the changes, the reader will more likely provide feedback.

IAS 12.46:

The use of the tax rate in force at the balance sheet date is misleading in countries where the tax rate is announced after the year-end but before the finalisation and announcement of results. Therefore, this should be amended to permit such adjustments as discussed in IAS 10.21(h) above.

IAS 12.70:

This section states that when an enterprise makes a distinction between current and non-current assets and liabilities in its financial statements, it should not classify deferred tax assets (liabilities) as current assets (liabilities).

There are items of deferred tax that will reverse during the next financial period, such as unrealised foreign exchange movements, which should be shown as current. The criteria for determining whether an item is current or non-current is whether or not it is expected to be recovered or settled in the next 12 months.

If any of the above matters require further clarification, please do not hesitate to contact me on (65) 6530-5550 or by e-mail at dbframjee@deloitte.com or my Technical Director, Tom Egan on (65) 6530-5506 or by e-mail at tegan@deloitte.com.

We would once again like to extend our appreciation to you for this opportunity to comment on the draft standards.

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